SELECT COMMITTEE ON CONSUMER CREDIT

Hearings Held At Parliamnet Buildings,

Toronto, Ontario, 2nd Day of December, 1963

---ON RESUMING AT 2:00 P.M., DECEMBER 2, 1963.

THE CHAIRMAN: Ladies and Gentlemen, we will bring the meeting to order, as we now have a quorum.

We have with us this afternoon Mr. C. M. Cawker, President of the Canadian Consumer Loan Association. I will ask Mr. Cawker to introduce the gentlemen that he has with him and tell us who they are before he proceeds with the brief which is quite long, I understand, and which he is going to read to us. Would you go ahead, Mr. Cawker and introduce the gentlemen who are with you, please?

MR. CAWKER: Mr. Chairman, ladies and gentlemen, my names is Charles M. Cawker, I live in Belleville, Ontario and I'm President of the Canadian Consumer Loan Association and my company affiliation is Longbank Finance Limited. With me today I have to my immediate right the Past President of the Canadian Consumer Loan Association, and Vice-President and General Manager of Beneficial Finance Company of Canada, Mr. Edward J. Hendricks. And on his right Frederick C. Oakes, Vice-President of, Executive Vice-President of Longbank Finance and the Past President of the Canadian Consumer Loan Association. And Mr. James H. Jones, President and General Manager of Soverign Finance.

Our brief, Mr. Chairman, is rather lengthy, but due to the relationship over the years with the Department of Insurance Federal and the statistics which have been accumulated, not only by that Department in its supervision of our industry but

also thanks to the statistical departments of some of our members, we have tried to bring together in a brief the pertinent information which we certainly hope might be of help to this Committee. If it please the Committee, I will read the brief.

THE CHAIRMAN: Proceed then, Mr. Cawker.

MR. CAWKER: "The Canadian Consumer Loan Association is composed of small loans companies and money lenders licensed to make loans to Canadian consumers under the Small Loans Act. Subject to the approval of its Board of Directors as to an applicant's qualifications, all corporations, partnerships and individuals licensed under this Act are eligible for membership. The total outstandings under the Small Loans Act on December 31, 1962, amounted to 1,055,356 loans for $482,246,939 of which 99% was written by members of this Association.

"The objectives of the Association which was formed in 1944 are as follows:

(a) To improve the operating standards of its members.

(b) To promote, encourage and maintain policies calculated to cultivate public confidence in the small loans business.

(c) To compile, make available and disseminate information relating to the said business for use of its members and the general public.

(d) To encourage its members to co-operate with Better Business Bureaux, Chambers of Commerce, Boards of Trade, Welfare Societies and other

agencies for the purpose of improving economic and social conditions.

(e) To do all such other things as are incidental or conducive to the attainment of the above objects.

"The Code of Ethics of the Association appears as Appendix A of this brief and the list of members appears as Appendix B. Of course the figures referred to in the first paragraph of this brief are from the Interim Report of the Department of Insurance, Small Loans Companies and Licensed Money Lenders for the year ended December 31, 1962.

"The regulated consumer loan business developed in response to an urgent social and economic need for a cash loan service to families of modest means. This need for staisfactory sources of small loans to consumers has only developed in Canada during comparatively recent years with the change from an agrarian to an industrial economy and the consequent shift of population from rural to urban areas. The result has been the dependence of a growing number of people on cash income rather than on the physical products of their own hands. Early laws did not protect borrowers and many people needing small loans were victimized by unscrupulous lenders charging exorbitant rates.

"This condition did not develop as early in Canada as in the United States where intensive studies of the problem commenced in 1908. Most active in this field was the Russell Sage Foundation, a philan-

thropic body dedicated to the improvement of social and living conditions. Studies by the Foundation showed laws limiting interest on all loans, regardless of size, were inadequate as far as small loans were concerned since they only prevented small loans being made legally and drove people into the hands of the unscrupulous lenders. It also was apparent from experiments with the operation of philanthropic lending agencies that the need for small loans could not be met in this manner. The Foundation concluded that the only answer was to enact laws which would provide small loan rates low enough to protect borrowers but high enough to attract the commercial capital necessary to meet the public need.

"The Foundation received the support of ethical lenders, welfare organizations and far-sighted business leaders. By 1917 the first laws containing the provisions now known as the Uniform Small Loan Law had been passed in the majority of states.

"In Canada it was apparent by 1936 that a small loan law was necessary for here, as had happened in the United States, the unscrupulous lenders were creating serious social problems.

"Prior to 1940 when the Small Loans Act became operative, there was no effective legislation to protect small sum borrowers. The Money-Lenders Act of 1906 limited to 12% per annum interest on all loans of $500 or less but did not prevent the making of additional charges. The situation which existed is

described very clearly in the preamble to the Small Loans Act:-

'Whereas it has become the common practice for money-lenders to make charges against borrowers claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage and recording fees, fines and penalties, or for inquiries, defaults or renewals, which, in truth and substance are in whole or in part, compensation for the use of money loaned or for the acceptance of the risk of loss or are so mixed with such compensation as to be indistinguishable therefrom and are, in some cases, charges primarily payable by the lender but required by the lender to be paid by the borrowers; and whereas the result of these practices is to add to the cost of the loan without increasing the nominal rate of interest charged so that the provisions of the law relating to interest and usury have been rendered ineffective;'

"Thus there were no legal means of preventing lenders from making extra charges of various kinds with the result that borrowers, lacking the bargaining power usually present in commercial transactions, often found themselves saddled with unconscionable charges and repayment terms.

"A small group of ethical lenders who were operating under special private acts, did not condone such practices and made every effort to bring these conditions to the attention of responsible people to the

end that overall effective legislative action might be taken. These efforts led eventually to a complete examination of the subject by successive parliamentary committees between 1936 and 1939. During these hearings witnesses appeared representing social agencies in Canada and the United States, banks, credit unions and the responsible lenders.

"The final report resulting from these various parliamentary studies was issued June 1, 1938 by the House of Commons Banking and Commerce Committee. The emphasis this Committee placed on the importance of setting as low a rate as possible is indicated by the following statement which appeared in the Committee's report:-

> 'Throughout its enquiry your Committee's objective has been to secure the best procurable rate for the borrower.'

"However the Committee was mindful of the need for an adequate rate and this type of service as indicated by this further statement:-

> 'Obviously the State can intervene advantageously over rates only within a limited field; for naturally a legislative rate at which money is not obtainable is of doubtful benefit to necessitous people. In the debates over the subject it would almost seem to have been at times forgotten that to legislate a maximum rate is an injunction that, if people cannot borrow at the prescribed rate, they cannot borrow at all.'

"The principal conclusions of the

Committee were:-

(1) There was a need for instalment loans to wage earners and salaried people.

(2) The cost ratio of small consumer instalment loans was considerably higher per dollar loaned than in the case of commercial loans and therefore a higher rate was necessary.

(3) Existing legislation did not provide the protection that borrowers should have against excessively high rates.

"The Small Loans Act as passed in 1939 set the "cost of loan" at a maximum of 2% per month on reducing balances. Such cost included all charges for any loan of $500 or less. The Act fulfilled its purpose and licensed, supervised consumer loan service became available across Canada.

"The Act also provides for licensing, inspection of lenders' books and records, and annual returns by lenders to the Superintendent of Insurance for Canada. This is a most comprehensive return which fully discloses all details of the operation as will be seen by the copy of the Superintendent's Annual Report for 1961 which is the latest available and appears as Appendix C. In connection with licensing, Section 5(a) of the Act states:-

> 'The Minister may issue a license to any person upon being satisfied that the experience, character and general fitness of such person, or if such a person is a corporation, of the officers and directors of the corporation, are such as to warrant the belief that the applicant will, if granted

a licence, carry on with efficiency, honesty and fairness to borrowers the business of money lending pursuant to this Act.'

"By 1956 when the Act had been in force for sixteen years without revision, it became apparent that with the post war growth of the economy there had been a tremendous increase in the demand by consumers for loans over $500. This is evidenced by the fact that at the end of 1956 out of a total of $343 million in loans outstanding with licensed consumer loan companies and their affiliates, only $88 million, or 26% represented loans up to $500 and therefore under regulation. After extensive study by the House of Commons Banking and Commerce Committee, the Act was amended effective January 1, 1957, to extend the area of regulation to cover all loans up to $1,500 under the following conditions:-

(1) Maximum rates:

2% per month on any part of the unpaid principal balance not exceeding $300,

1% per month on any part of the unpaid principal balance exceeding $300 but not exceeding $1,000,

½% per month on any remainder of the unpaid principal balance exceeding $1,000 but not exceeding $1,500.

No other charges whatsoever may be made under the terms of the loan contracts.

(2) The cost of any loan or any part of it cannot be compounded or deducted in advance.

(3) In the case of loans for $500 or less made for more

than 20 months, and loans between $500 and $1,500 made for more than 30 months, the rate must not exceed 1% per month on unpaid principal balances. Similarly, if part of any loan remains unpaid after the due date of the final instalment shown in the contract, the rate shall not exceed 1% per month on the unpaid balance.

(4) If more than one loan is made to one person or to a husband and wife, the same rates apply as though one loan for the same total amount was made.

(5) Loans shall be repayable in approximately equal monthly instalments.

(6) The borrower may repay the loan or any part of it on any instalment date, without notice, bonus or penalty.

"It is interesting to compare rates in the Canadian Small Loans Act with legal rates in other countries. The schedule appearing as Appendix D sets out the maximum legal rates under the various acts of the state legislatures in the United States and it can be seen from this the Canadian rates are lower in every instance.

"In Great Britain the law is not as positive as in Canada and the United States. The law there sets no direct limit on the rate of interest a money lender may charge. It does specify, however, that if the rate is greater than 48% per annum, the money lender must show, in any proceeding in respect of money lent, why the Court should not consider the rate excessive. Conversely, where the rate is less than 48%, the borrower must show the Court why it should

consider the rate excessive.

"By the end of 1962, of the $644 million reported by the Bank of Canada as outstanding on the books of licensed consumer loan companies and their affiliates, $482 million, or 75%, represented loans of up to $1,500 and therefore under regulation. A copy of the Act and an explanatory digest of it appear as Appendices E and F.

"Each licensee is inspected annually be Department of Insurance examiners. Complaints to the Department about loans made under the Act by licensed lenders have been rare. This is noteworthy in the light of the more than one million loans made annually. Members of the Canadian Consumer Loan Association are continually alert to the possibility of illegal lending activity which occasionally comes to light in connection with unlicensed lenders. In these cases the information is cleared through the Association Headquarters and passed on to the Department of Insurance for investigation and such other action as the Superintendent may direct. This manifest desire on the part of members of the Association to see the Act achieve its purpose has undoubtedly had much to do with the successful operation of the Act.

"The following table shows the effective rates to the borrower resulting from the rates set out in the Small Loans Act:-

TABLE 1

Amt. of Loan	Rates (Small Loans Act)	Rate/ Month	Rate/ Annum	Lenders' Gross Revenues/$100 Loaned/Year
$300	2%	2.00%	24.00%	$13.46
$500	2%-$300 1%-$301-$500	*1.81%	21.72%	$12.15
$1,000	2%-$300 1%-$301-$1,000	*1.47%	17.64%	$ 9.87
$1,500	2%-$300 1%-$301-$1,000 ½%-$1,000-$1,500	*1.27%	15.24%	$ 8.44

*Average rate when loan is paid according to contract.

And you will notice in Table 1 the rather wide swing in rates per annum from the 300 to 1500 and the lender's gross revenue on dollars earned per year. And it should be noted that the percentages marked with an asterisk are the average rate when the loan is paid according to contract.

"The last column, showing the lenders' gross revenue per $100 of loan made per year, illustrates the point that in the case of instalment loans a rate of 24% per annum does not mean a cost of $24.00 per $100 of loan. This is a common mistake which is even sometimes made by otherwise well informed people and is attributable in part to the use of other methods of calculating charges by other financial agencies.

"Consumer instalment credit falls into two main divisions which are quite distinct but are often confused by many who comment on them in public discussion. These two divisions are:-

(1) Instalment sales financing.

(2) Instalment cash loans.

"Instalment sales financing enables people to make purchases which they do not wish to or are unable to make out of savings. The unpaid balance of the purchase price is financed directly by retailers or through sales finance companies. Ownership does not pass to the purchaser until the final instalment is paid. Sales finance companies which specialize in this service to dealers rarely deal directly with the prospective purchaser at the time of purchase.

"Consumer loan companies in extending cash credit deal directly with the borrowers and are fully responsible for investigation of their credit standing as well as for the administration and collection of the loans. Since the majority of loans are made without liquid or readily saleable security, lenders must regard character and paying ability as of prime importance and therefore must ensure these factors are accurately assessed.

"A substantial portion of cash personal loans are made to enable families to reorganize their financial affairs and help them to recover from situations created by unexpected demands or interruption of income. This permits families to work their way out of debt at a pace suited to their earnings.

"In addition to consumer loan companies, banks and credit unions make consumer loans. As consumer credit has attained a more widespread acceptance and the philosophy of saving for goods and services while enjoying their use has become more generally accepted, the banks have increased their activity in this field.

The Bank of Canada Statistical Summary for May, 1963, reports that at December 31, 1962, the chartered banks had $1,183 million outstanding in consumer loans. This is outlined in Table 2.

"The banks have a ready source of low cost funds available and with existing branches adequately staffed the costs of this additional service can, to a considerable extent, be absorbed in their general overhead. Despite these advantages their lower rates of charge impose a limit upon the costs which a bank can incur in investigating credit worthiness of applicants and in servicing and collecting loans. Bank management, aware of the cost limitations and of its responsibilities to depositors, usually sets materially higher credit standards in selecting risks than do other types of consumer credit institutions.

"Credit unions in recent years have experienced much the same growth rate as banks and consumer loan companies and now have a considerable share in the consumer loan total. By the end of 1961 there were 4,700 credit unions in Canada with 2-3/4 million members and assets totalling 1½ billion dollars. Of these, 1,533 were located in Ontario with 581,000members and assets of $270,000,000.

"Credit unions have definite limitations in that their services are available only to their membership which is usually restricted to a more or less homogeneous group of people with some common bond of interest. They generally stress low rates of charge compared with other types of institutions and they also stress

idealistic or moralistic motives of helpfulness to fellow members. However, an individual who has access to credit union services can, and frequently does, use the services of a bank, a consumer loan company or other lending institution, depending on his ability to meet their credit standards or on the degree to which his particular needs can be served by them.

"There are several reasons for credit unions' ability to make loans at lower rates than consumer loan companies not the least of which is their complete exemption from income tax. In addition, they are able to effect substantial operating economies through voluntary unpaid workers, rent-free space (especially in the case of industrial credit unions) less extensive credit checking of loan applicants, lower collection and payment processing expense (particularly where payroll deductions are in force).

"Experience indicates the range in the field of consumer loans is so wide as to borrowers' character, capacity, stability and other factors which constitute his credit stature, that it is unlikely ever to be adequately or completely served by one type of institution whether it be banks, credit unions or consumer loan companies. While the banks have a larger share than either credit unions or consumer loan companies, these two between them comprise half the consumer loan segment of the consumer credit field.

"The consumer loan companies are unique in that they are theonly source of consumer loans which is available to many thousands of families who cannot or

do not wish to be members of credit unions or meet bank requirements. A further difference is the fact that they do not accept deposits but are dependent on commercial capital to satisfy their borrowers' requirements. They are also highly specialized in that they concentrate on consumer loans.

"Consumer credit is generally regarded as consisting of contractual obligations entered into by consumers but not as house buyers for personal rather than business reasons. As such, it includes indebtedness incurred in the form of charge accounts, commitments to pay for goods and services in instalments and personal borrowing without attendant collateral in the form of stocks and bonds.

"The Bank of Canada does not produce a single table showing all the elements of consumer credit but the following table is consistent with the above description and the figures composing it are taken from Bank of Canada publications as indicated:-

TABLE 2

CREDIT EXTENDED TO CONSUMERS BY RETAIL DEALERS AND CERTAIN FINANCIAL INSTITUTIONS

December 31

	(Millions of Dollars)			(% of Total Consumer Credit)		
	1949	1957	1962	1949	1957	1962
CASH LOANS						
Banks (1)	173	421	1,183	21.1	15.9	28.1
Consumer Loan Cos. (2)	77	347	644	9.4	13.1	15.3
Credit Unions (3)	63	258	525(5)	7.7	9.7	12.5
Total	313	1,026	2,352	38.2	38.7	55.9
SALE CREDIT						
Retail Dealers(4)	389	826	1,039	47.6	31.2	24.7
Instalment Sales Finance Cos.	116	780	771	14.2	29.5	18.3
Consumer Loan Cos.	-	15	45	-	.6	1.1
Total	505	1,621	1,855	61.8	61.3	44.1
TOTAL CONSUMER CREDIT	818	2,647	4,207	100.0	100.0	100.0

Table 2, as you will see, breaks down the cash loan business under the headingsof the three principle suppliers of this service and sales credit, commonly referred to as the acceptance business under the three main suppliers of this service.

The sources are the Bank of Canada Statistical Summary Finance Supplement, 1957 (1949 figures), and the Bank of Canada Statistical Summary, May, 1963 (1957 and 1962 figures).

The Notes -- I shall just go through

them quickly. I think they are fairly explanatory.

(1) Loans to individuals other than for business purposes or home improvements and not fully secured by marketable stocks and bonds.

(2) Loans made by companies licensed under the Small Loans Act and affiliated companies usually repaid in instalments.

(3) Not secured by mortgages.

(4) Charge account credit and instalment sale credit combined.

(5) Latest available, December 31, 1961

"The year 1949 was selected because it is the year chosen by the Dominion Bureau of Statistics as its base year. The year 1957 was chosen because it was in 1958 that the banks commenced a much more concerted effort to develop business in the sales finance and consumer loan fields by setting up special departments for this purpose.

"It can be seen from this table that with only 15.3% of the total, consumer loan companies do not comprise one of the major segments of consumer credit. Banks with 28% of the total and retail dealers and instalment sales finance companies with 24.7% and 18.3% respectively are the major participants. Nevertheless, with 1,055,000 loans of $1,500 or less accounting for $482,000,000. it can readily be understood that the role of the consumer loan companies is of real important to those families which use their service in amounts averaging about $450 each.

"In examining further the percentage

section of the table, several points stand out. The banks'share of the total, which declined over 5% in the eight years from 1949 to 1957, rose sharply by over 12% in the four years ending December 31, 1962. Significantly, the sales finance companies and retail dealers decreased 11.2% and 6.5% respectively while the relative growth of consumer loan companies and credit unions remained at about the same level.

"The offices of modern consumer lenders are set up to provide efficient service to customers in locations which are readily accessible. Since privacy is important to consumer borrowers, lenders provide interviewing rooms for loan discussions in addition to general office area.

"Although some loans are made to enable the borrower to take advantage of a business opportunity or to make an advantageous purchase, the majority of prospective consumer loan customers come to the lender because of some family financial problem. In these circumstances it is important that the lender consider the applicant's problem in detail and assist in every way possible to find a solution. Thus the preliminary interview in the lender's office usually encompasses much more than simply filling in an application form. In many cases intervention between the applicant and his existing creditors and general financial counselling occupy a considerable amount of the interviewer's time.

"After careful investigation most lenders currently find only about 60% of applications actually result in loans being made. It is not in the best

interests of the lender or the applicant to make a loan when it appears the purpose of the loan is unsound or that he is over-reaching his credit and may have difficulty making repayment. The main considerations in judging an applicant's eligibility to borrow are:-

(a) Character - This includes evidence of family accord as well as the applicant's attitude toward his problem. To obtain this knowledge sometimes requires confidential checking with various sources.

(b) Earning Ability - This is determined by seeing pay-cheques stubs or envelopes, T4 slips and commission statements. The interviewer must be familiar with going rates for various trade classifications in the area and general employment conditions in the local industries.

(c) Stability of Employment - It is desirable that the applicant has a good work record and indication of job stability. Badge numbers and other evidence of employee seniority may be seen.

(d) Other Sources of Income - This is checked by seeing pension papers, direct checks with part-time or after-hours employers, knowledge of going rates for rentals of rooms, flats, etc.

(e) Existing Debt Commitments - These are mainly ascertained in the office interview. Other sources include credit bureaux, registry offices and lenders' exchanges. Under the sponsorship of the Canadian Consumer Loan Association, offices for the reporting and clearing of loan information have been established in several major areas and others are in process of formation. The establishment of these exchanges demonstrates the desire

of lenders to exercise sound credit control.

(f) Paying Record - Interviewers ask to see payment booklets on current instalment accounts, credit cards and, sometimes, receipts for rent or mortgage payments. These may also be checked through credit bureaux or by direct contact with creditors.

(g) Essential Living Costs - These are determined through consideration of such matters as number in the family, location and type of housing, fuel expense, insurance, operation of automobile and other fixed family expenses.

(h) Evidence of Family Cooperation - This is usually determined by extent of mutual interest of husband and wife in the purpose of the loan, contributions of employed children to family income, etc., It is sometimes necessary to visit the applicant's home to view the home surroundings at first hand to establish evidence of family cooperation and character.

(i) Ownership of Security - This is established by checking for instalment payment accounts, search of registry office, direct contact with dealers and direct questioning during the interview.

"The transaction of a loan begins when a complete stranger enters the office and requests a loan. He is assigned to a private interview room where, with the assistance of an interviewer, he completes an application form on which he gives all the necessary information. By analysing this information in conjunction with the purpose for which the money is to be used, the interviewer and the applicant are able to tentatively arrive at the size of loan and monthly payment program

which will best accomplish the purpose and fit into the applicant's ability to repay. The next step is to check and verify the applicant's circumstances, paying habits, indebtedness and income. When the investigation is completed, lender and borrower finally determine the amount of the loan and agree on the monthly payment plan and the necessary documents are prepared. In most cases lenders arrange for both husband and wife to be present to receive the explanation of the loan and sign the documents so that family cooperation is ensured.

"The need for detailed and careful supervision of a large number of payments is an inevitable result of making many small-sum instalment loans. Reminder notices, telephone calls, letters and, in some cases, visits to the home are used to control delinquency. Borrowers often encounter new emergencies which require consultation with the lender and a complete review of their circumstances. Sickness, accidents, temporary lay-offs and strikes interrupt the normal receipt of borrowers' incomes with the resulting need of arranging new contract terms or rearranging existing payment plans. The relatively good write-off record in the consumer loan business is achieved by close attention to each individual account.

"Because the total number of borrowers on the books of consumer loan companies has shown an increase for several years (see Table 3) some critics have suggested that consumer borrowers remain almost perpetually in debt to loan companies. While it is often necessary for borrowers to obtain additional money before

the original loan is repaid, Table 4 shows that the criticism referred to has been exaggerated."

Table 3 gives us the small loan balances outstanding of small loan companies and licensed money lenders as of December 31 of the respective years. It is worth noting, of course, that the rather substantial change in the figures of the average loan balance occurred in the first year of the increase of the limit of the Small Loans Act from $500 to $1,500, which became effective January 1, 1957.

TABLE 3

SMALL LOAN BALANCES OUTSTANDING - SMALL LOAN COMPANIES & LICENSED MONEY LENDERS

December 31

Year	Number of Accounts	Total Loan Balances	Average Loan Balances
1951	442,959	$60,259,902	$136
1952	467,594	76,990,337	164
1953	482,976	81,840,415	169
1954	523,628	88,822,891	170
1955	529,704	88,844,506	168
1956	543,394	88,428,203	163
*1957	812,135	229,199,629	282
1958	892,111	315,827,669	354
1959	920,747	360,019,949	391
1960	957,965	391,548,554	409
1961	992,193	426,157,346	429
1962	1,055,356	482,246,939	456

* First year of increase of limit of Small Loans Act from $500 to $1,500.

Note: Data from Superintendent of Insurance Reports.

TABLE 4

Year	No. of Loans Outstanding 1st of Year	No. of Loans Made to New & Former Borrowers	Total Borrowers Dealt With	No. of Loans Outstanding Year End	No. of Loans Paid Off During Year	Percent Paid Off
*1957	543,394	505,750	1,049,144	812,135	237,009	23%
1958	812,135	493,848	1,305,983	892,111	413,872	31%
1959	892,111	376,473	1,268,584	920,747	347,837	27%
1960	920,747	369,110	1,289,857	957,965	331,892	25%
1961	957,965	398,027	1,355,992	992,169	363,923	27%

* First year of increase of limit of Small Loans Act from $500 to $1,500.

And, as referred to before, Table 4 shows the percentage of borrowers that completely pay off their loans in the given years as indicated by the Table. And once again 1957 represents the first year of the increase in the limit of the Small Loans Act from $500 to $1,500.

"The following tables, numbers 5 to 10, present a general picture of the people that use the services of consumer loan companies:-

Table 5 shows the loans made by small loan companies and money lenders in the year 1961.

TABLE 5

LOANS MADE BY SMALL LOANS COMPANIES AND MONEY LENDERS-1961

Amount	Number	%	Amount	%
$100 and Less	41,493	3.6	$ 2,939,079	0.6
101 to 200	172,607	14.7	25,597,483	4.3
201 to 300	174,029	12.3	42,821,010	7.1
301 to 400	142,850	12.3	49,149,562	7.6
401 to 500	65,953	5.7	29,188,009	4.8
501 to 600	130,851	11.2	69,680,557	11.6
601 to 700	79,785	6.8	51,288,313	8.5
701 to 800	80,454	6.8	60,007,710	10.0
801 to 900	59,545	5.1	50,583,878	8.4
901 to 1,000	198,462	17.0	197,064,123	32.4
1,001 to 1,100	10,990	0.9	11,470,919	2.0
1,101 to 1,200	5,139	0.4	5,955,877	1.0
1,201 to 1,300	3,653	0.3	4,561,581	0.8
1,301 to 1,400	2,626	0.2	3,528,804	0.6
1,401 to 1,500	1,262	0.1	1,850,835	0.3
	1,169,699	100.0	605,687,740	100.0

"Because the detailed information appearing in Tables 6 to 10 is not produced by all companies, these tables are based on an analysis of the figures of major consumer loan companies representing 65% of the total business under the Small Loans Act and show distribution of loans by occupation of borrower, purpose of loan, income and age of borrower, as well as the ratio of average loan size to average income."

Table 6 gives us the distribution of loans by principal purpose for the year 1960, taken actually from the individual figures kept by the companies and totalling 65% of the total business under the Act.

TABLE 6

DISTRIBUTION OF LOANS BY PRINCIPAL PURPOSE - 1960

Reason for Borrowing	Percentage of Total Number of Loans Made
Consolidation of Debts	31.69
Clothing	7.75
Fuel	1.46
Rent	.88
Medical Expenses	6.14
Automobile	11.08
Travel	11.03
Education	.41
Investment	.89
Household Repairs	5.26
Furniture	5.53
Taxes	3.13
Assisting Relatives	4.62

TABLE 5 (Continued)

Reason for Borrowing	Percentage of Total Number of Loans Made
Insurance Premiums	1.76
Moving Expenses	1.20
Mortgage & Interest	.81
Miscellaneous	6.36
TOTAL	100.00

Table 7 once again representing 65% of the total business under the Act, gives us the distribution of loans by occupation of borrower.

TABLE 7

DISTRIBUTION OF LOANS BY OCCUPATION OF BORROWER - 1960

Occupation	Percent of Total Number of Loans Made
Skilled - Semi-skilled	46.58
Unskilled	16.46
Service Workers	7.57
Sales Persons	3.36
Clerks & Kindred Workers	8.87
School Teachers	.63
Federal, Provincial, County, City	6.60
Managers, Officials, Proprietors	3.62
Professional	2.82
Farmers	1.91
Pensioned & Independent	1.47
Miscellaneous	.11
TOTAL	100.00

Table 8 is the distribution of loans

by borrowers' monthly income for the year 1960, giving us the percent of loans made by borrowers' monthly income as a percent of total loans.

TABLE 8

DISTRIBUTION OF LOANS BY BORROWERS' MONTHLY INCOME - 1960

Monthly Income	Percent of Loans Made by Borrowers' Monthly Income As Percent of Total Loans		
	By Number		By Amount
$ 0 - $100.00	.36		.14
100.01 - 200.00	7.69		3.75
200.01 - 300.00	26.33)		20.45
300.01 - 400.00	33.59)	78.74%	35.34
400.01 - 500.0	18.82)		22.66
500.01 - 1500.00	13.21		17.66
TOTAL	100.00		100.00

Table 9 is the distribution of loans by Age of the borrower. The percentage of loans made by age as a percent of total loans. And it is rather interesting to note the range of age where 71½% of the business originated. Table 8 show that nearly 79% of borrowers fall within a monthly income range of 200 to 500 dollars, while table 9 shows that nearly three-quarters fall within the age group of 20 to 44. This is to be expected. The majority of borrowers use the services of consumer loan companies mostly during their early adult years when family responsibilities are heaviest in relation to income.

TABLE 9

DISTRIBUTION OF LOANS BY AGE OF BORROWER - 1960

Age of Borrower	Percent of Loans Made by Age as Percent of Total Loans	
	By Number	By Amount
Less than 20	.72	.34
20 - 24	12.15	8.14
25 - 29	16.17	15.03
30 - 34	15.84	16.46
35 - 39	14.88	16.30
40 - 44	12.54	14.12
45 - 49	10.54	11.91
50 - 54	7.91	8.61
55 - 59	5.21	5.42
60 - 64	2.68	2.50
65 & Over	1.01	.73
Not Reported	.35	.44
TOTAL	100.00	100.00

Table 10 is the ratio of the average size loan to average monthly income by borrowers. This is again for the year 1960. Disregarding the low figure and the high figure we find that there is a rather interesting consistency from $100 to $500, in that there is 1½ months' income involved in the total loan made through those categories.

Table 10 shows the close relationship between income and loan size. If the first and last classifications of $100 or less and over $500 are disregarded, it is apparent that there is very little

variation in the ratio of loan size to income in the remaining classifications. This tends to substantiate the contention that the majority of borrowers take a sensible approach to the use of credit and weigh their requirements carefully against their repayment capacity. It also points up the care exercised by lenders in assessing the credit worthiness of their customers.

TABLE 10

RATIO OF AVERAGE SIZE LOAN TO AVERAGE MONTHLY INCOME BY BORROWERS - 1960

Monthly Income	Ratio of Average Size Loan to Average Monthly Income
$ 0 - $100.00	2.44
100.01 - 200.00	1.52
200.01 - 300.00	1.55
300.01 - 400.00	1.57
400.01 - 500.00	1.42
500.01 - 1500.00	1.13
TOTAL	1.44

"Foremost among the post war developments of new techniques to determine the credit capacity of prospective borrowers has been the organization of self-administered Lenders Exchanges under the sponsorship of the Canadian Consumer Loan Association. These exchanges create a pool of all the loans currently held by the participating members and provide a means whereby the members may ascertain by telephone whether or not a prospective applicant has an open loan with any other member company. The companies report loans made and loans paid off to the exchange daily so that the infor-

mation is as up-to-date as possible.

"The organization and operation of Lenders Exchanges is time-consuming and expensive. Costs must be assessed against member companies and an exchange is only practical in centres having a sufficient number of loan offices and open accounts to keep the cost per clearance at a reasonable figure. For example, to open the Toronto office, that is, the Toronto Lenders' Exchange, involved outlays of over $20,000 for capital equipment plus an operating budget of approximately $3,000 per month. This exchange has over 200,000 names on file and handles nearly 16,000 clearances per month, from 209 loan offices in the area from Oshawa to Hamilton and north to Richmond Hill and Newmarket.

"The first of these exchanges was formed in Windsor, Ontario, in 1959, as a pilot project. As experience in operation was gained, surveys were made in other cities with the result that exchanges were opened in Toronto in 1961, in Ottawa and Vancouver in 1962, and in Montreal early in 1963. Discussions are currently taking place which may result in formation of exchanges in other Canadian cities in the future.

THE CHAIRMAN: Mr. Cawker, this may be a good time for a five minute break.

MR. CAWKER: Very well.

---SHORT RECESS.

THE CHAIRMAN: Gentlemen, if you will resume your seats we will carry on. Will you kindly close the door at the back, please? Would you carry on then, Mr. Cawker, please.

MR. CAWKER: Thank you. Page 21, Section 47, Delinquency.

"The Small Loans Act in Part 1, Section 6(1), requires 'Every loan shall be repayable in approximately equal instalments of principal or of principal and cost of the loan at intervals of not more than one month each', and goes on to provide procedures in case of default. This requirement imposes on lenders and borrowers the need to agree on a due date for monthly instalments within the limitations of length of contracts which are also regulated by the Act.

"Monthly due dates thus become the most important check points in regulating the progress of the repayment of consumer loans. They are carefully chosen after discussion between lender and borrower to avoid conflict with other regular monthly obligations and are prominently shown on documents signed by the borrower and on the payment booklet given to the borrower at the time the loan is made. Customer accounts are filed by dates and all lenders employ a system whereby these are examined daily so that overdue accounts may be followed up according to the lender's delinquency control policy.

"Lenders are well aware that it is in their own interest to pursue a fair and reasonable collection policy designed to maintain a high level of collection efficiency while retaining the good will and cooperation of borrowers.

"Evidence of collection policies may be seen from Tables 11 and 12 which were compiled from

figures taken from the Annual Reports of the Superintendent of Insurance.

Table 11 shows, of course, the number of loans in various years made on chattels, the number of seizures of chattels, the number of seizures per 1,000 loans made, the number of offices in the industry membership and the number of seizures per office.

TABLE 11

Year	No. of Loans Made on Chattels	No. of Seizures of Chattels	No. of Seizures per 1,000 Loans Made	No. of Offices	No. of Seizures per Office
1957	713,616	944	1.3	836	1.12
1958	718,343	1,310	1.8	892	1.46
1959	698,565	1,388	1.9	979	1.41
1960	805,270	1,818	2.2	1,074	1.69
1961	836,764	1,880	2.2	1,211	1.55

Table 12, under the same heading shows the number of legal actions taken.

TABLE 12

Year	No. of Loans Made	No. of Legal Actions Taken	No. of Legal Actions per 1,000 Loans Made	No. of Offices	No. of Legal Actions per Branch
1957	1,075,322	1,610	1.4	836	1.92
1958	1,107,500	2,176	1.9	892	2.43
1959	1,097,226	2,270	2.0	979	2.31
1960	1,094,512	2,899	2.6	1,074	2.70
1961	1,169,699	3,424	2.9	1,211	2.82

"While the foregoing tables illustrate that lenders deldom resort to legal actions and seizures

to collect their accounts, Table 13 which follows, shows that numbers of consumer loan borrowers do become delinquent in varying degrees during the term of their loan contracts."

If I might be permitted to digress just for a moment from this brief. I have been employed in this industry continuously since 1935 and I have been a Director with the exception of the years 1940 to 1945. I have been a Director of this Association for 14 years and this is my fourth term during those years as President of the Association. I have never ceased to be very proud of the consistent record of the industry under these two headings, the matter of seizures and the matter of legal actions taken. I think probably it is a tribute, first of all, to the good sense of borrowers and secondly, to the good judgment exercised by the lenders.

Table 13, of course, shows that we do have delinquent accounts and the Table is related to the number of small loans outstanding.

TABLE 13

DELINQUENT ACCOUNTS RELATED TO NUMBER OF SMALL LOANS OUTSTANDING - December 31

Year	Under 2 Months Arrears	% of Total Loans O/S	2 to 6 Months Arrears	% of Total Loans O/S	Over 6 Months Arrears	% of Total Loans O/s	Total No. in Arrears	% of Total Loans O/S
1957	128,105	15.7	44,214	5.4	24,556	3.1	196,875	24.2
1958	147,637	16.5	57,790	6.4	29,519	3.3	234,946	26.2
1959	155,006	16.8	65,613	7.1	36,565	3.9	257,184	27.8
1960	171,091	17.8	77,421	8.1	45,221	4.7	293,733	30.6
1961	92,613	9.3	80,383	8.1	52,954	5.3	225,950	22.7

Note 1:- O/S - Outstanding

Note 2:- Due to a change in the method of reporting, accounts delinquent less than one month are excluded from the 1961 figures.

"Most delinquency is caused by temporary interruption of borrowers' incomes due to lay-offs, strikes, etc., and is included in the totals despite the fact that some arrangement has been reached between lender and borrower to carry the account in arrears. A few cases give evidence of misrepresentation or fraud and these are the ones which require legal process to adjust.

"Some cases of delinquency are created by serious illness, family break-up or absconding debtors and become write-offs despite the lender's best efforts to prevent it. Some write-offs are voluntarily made by lenders when they become aware of personal misfortunes which would cause undue hardship to borrowers who continued to make payments despite their curcumstances. Table 14 records write-offs in the industry related to average amounts of loans outstanding for the latest available five years.

TABLE 14

Year	Written Off Ledger Values	*Average Amount Outstanding	Net % of Write-Offs to Outstandings
1957	$1,567,029	$158,813,916	.9
1958	2,400,590	272,513,649	.8
1959	2,789,172	337,923,809	.8
1960	3,482,897	375,784,252	.9
1961	4,735,561	408,852,914	1.1

* Average of balances at beginning and end of year

Table 14 gives us, in the final analysis, the net percentage of write-offs to outstandings

"The consistency apparent in the ratio of write-offs to average outstandings since 1957 indicates that consumer loan companies have maintained sound credit standards and collection policies despite increasing competition. It does, however, appear inevitable that losses will increase as growth in the use of credit and in the variety and number of credit plans and agencies increases the complexity of credit investigation.

"Competition among consumer loan companies as well as from other kinds of lenders has increased during the years since World War II because of increased public demand for consumer credit service and the post war growth of the economy.

"After the conclusion of World War II veterans returned to civilian life with a consequently high rate of new family formation which led to a boom in house building and the need for furniture, appliances, automobiles and other durables. Canadian industries quickly converted from production of the needs of war to the needs of peach. Production, employment and spending reached record highs in an economy which inspired confidence in the ability of the average family to buy today and pay tomorrow.

"Consumer lenders expanded in numbers and size as the economy expanded and established branches in many areas whose residents had theretofore been forced to commute to larger adjacent cities to obtain cash credit. Table 15 shows the growth in the number of licensees and number of branch offices for the period 1957 to 1961 to illustrate the growth within the consumer

loan industry itself. Table 16 shows the growth of this industry in relation to competition from other kinds of lenders to the extent that figures are available.

Table 15, of course, indicates the coverage by outlet and commences with the first year of the increase in the limit of the Small Loans Act from $500 to $1,500.

TABLE 15

Year	Number of Licensees		Number of Offices	
	Canada	Ontario	Canada	Ontario
*1957	79	41	836	419
1958	79	42	892	446
1959	81	45	979	488
1960	80	45	1,074	519
1961	83	44	1,211	564

* First year of increase of limit of Small Loans Act from $500 to $1,500.

Table 16, mentioned above, is comparative. Small Loans Licensee Offices, number of Credit Unions and Bank Branches.

TABLE 16

	Small Loans Licensee Offices		Number of Credit Unions		Bank Branches	
Year	Canada	Ontario	Canada	Ontario	Canada	Ont.
1957	836	419	4,349	1,189	4,664	1,586
1958	892	446	4,485	1,296	4,819	1,641
1959	979	488	4,570	1,287	5,020	1,711
1960	1,074	519	4,667	1,316	5,204	1,785
1961	1,211	564	4,682	1,533	5,254	1,870

"Table 3 (page 1877) demonstrates that the outstandings of the consumer loan industry have shown a steady increase despite the marked growth in the number of outlets of competitive services. This is strong evidence that the industry offers lending service suited to the needs of a substantial proportion of the Canadian public. Since consumer loan companies cannot match the rates offered by their principal competitors it must be concluded that their service, their collection practices and their credit qualification standards are such as to attract borrowers whether they are eligible to borrow from other lenders or not.

"Many consumers set significant values upon convenience and continuing relationships with those in whom they have confidence and also the environment in which they do business. In general they tend to seek out the lender whose eligibility requirement they can meet.

PERSONNEL OF OUR COMPANIES

"The companies which make up the membership of the Canadian Consumer Loan Association employ 2,670 male and 2,049 female employees. The annual payroll for the industry in 1960 was $17,481,285. In addition to salary, most companies contribute towards the cost of major medical expenses, group life insurance and pension plans. The largest company in the business reports its average hiring age for male employees is 22 years - it takes the average man about five years to achieve manager status. Throughout their training period employees' progress is regularly reviewed by supervisors. After assignment to the first branch as manager, the line

of promotion continues through larger and more complex branch offices to supervisory and executive levels.

"Many of the companies employ district supervisors who have graduated from the rank of branch manager. Supervisors visit the branches frequently to ensure that sound lending procedures and fair collection practices are adhered to. Their experience is invaluable in the continuous training program which is an integral part of branch office routine procedure.

"Individual companies and the Association as a whole have spent many thousands of dollars developing motion pictures, manuals, and other training media to ensure that their personnel will be fully instructed in all phases of the business.

DISCLOSURE OF THE COST OF CREDIT

"The Canadian Consumer Loan Association believes that consumers are entitled to a clear statement of the cost of credit transactions. Members of the C.C.L.A. show in their notes the rates in terms of percent per month as set out in the Small Loans Act. The Canada Interest Act requires that whenever any interest is expressed in a written contract as a rate for any period less than a year, then the yearly rate must also be expressed. The rates are also, therefore, shown as rates per annum to comply with the Interest Act and in many cases appear in type larger than that used in the body of the note.

"The rates are stated in the following manner: -

2% per month (24% per annum payable monthly) on any

part of the unpaid principal balance not exceeding $300;

If I may draw to the attention of the Committee, Mr. Chairman, we have a very glaring typographical error in this sentence that I have just read in the brief appears as "in any part of the unpaid principal balance exceeding $300" and it should read, "balance not exceeding $300".

1% per month (12% per annum payable monthly) on any part thereof exceeding $300 and not exceeding $1,000;

½% per month (6% per annum payable monthly) on any remainder thereof.

After last payment falls due:-

1% per month (12% per annum payable monthly) on entire unpaid principal balance until fully paid.

Mr. Chairman, I have several sets of, I think, fairly representative notes that are used in our industry, which supports, I think, what we have just said about statement of rate. Mr. Oakes, would you care to take those to the Secretary. I hope you may find them useful.

"In addition to this the note shows the number and amount of the monthly payments as well as the amount of the loan and since there are no bonuses or other charges of any kind, the borrower can easily determine the cost of the loan in dollars and cents.

"Because of this requirement of the Interest Act and the manner in which the cost of the loan is already being disclosed to the borrower, it is obvious that any additional disclosure requirements applied to

licensees would be redundant. The Association submits, therefore, that loans made under the Small Loans Act be excluded from any legislation requiring disclosure of cost of credit transactions.

"Experience of Association members in dealing with hundreds of thousands of borrowers clearly shows that it is the cost of the loan in dollars which is most important to borrowers. The two questions which borrowers most often ask are, "How much is the monthly payment?" and "What will the loan cost altogether?" Thus, speaking from the vantage point of lenders who already provide disclosure of the cost of credit in both of the ways which have been publicly suggested, there is no doubt in the minds of members of this Association that the expression of the cost in dollars is more important and useful to most borrowers.

"The final point we wish to emphasize is that in the preparation of any legislation requiring disclosure of credit costs that <u>all</u> credit grantors dealing with the public and not already required to disclose their costs should be included."

I am not going to suggest that I read all the Appendices, Mr. Chairman. I think, however, I would like to read, for the record, the Code of Ethics and Business Standards of the Canadian Consumer Loan Association.

APPENDIX A

CANADIAN CONSUMER LOAN ASSOCIATION CODE OF ETHICS AND BUSINESS STANDARDS

(a) Members will explain fully to customers the actual cost, terms and contractual obligations of loan transactions.

(b) Members will use in all loan transactions written instructions worded in as simple, lucid, and unambiguous language as circumstances will permit and will draw such instruments with a view to the bona fide application of these standards of business conduct.

It is possibly worth noting here that it has become a practice and, I think, in fact, is a requirement of the Superintendent of Insurance that any new company applying for a licence submits their documents or their proposed documents to the Superintendent of Insurance and I think it is also fair to say it has become traditional within our membership that if any member changes his documentation for any reason, even if it only be a change of name, the documents, as amended, are submitted to the Superintendent.

(c) No Member shall take any note, promise to pay, or security that does not accurately disclose the actual amount of the loan, the time for which it is made and the agreed rate of charge, nor any instrument in which blanks are left to be filled in after execution.

(d) Every Member shall, if so requested by the borrower, deliver to the borrower at the time any loan is made,

an exact copy of any note, loan contract, chattel mortgage, lien agreement or wage assignment, signed by the borrower.

(e) Every Member shall give to the borrower on demand a plain and complete receipt for all payments made, specifying the amount applied to loan charges and the amount, if any, applied to principal, and stating the unpaid principal balance, if any, of such loan.

(f) Upon payment by a borrower of his indebtedness in full, every Member shall mark indelibly such evidence of indebtedness signed by the borrower with the word "Paid" or "Cancelled", restore any pledge, return any notice or loan contract or assignment given to the Member by the borrower and upon request release any mortgage.

(g) Every Member shall display in each place of business a full and accurate schedule of the charges to be made and the method of computing same.

(h) Members will endeavour to transact all business in such manner as to merit the respect and confidence of customers and the public.

(i) Members will avoid unduly harsh or oppressive collection methods and, except in very special cases, will resort to legal process for collection only in the event of misrepresentation, fraud, or refusal to comply with the terms of the contract.

(j) Members will adhere to the generally accepted standards of business deportment in competitive relations, in advertising, and in their dealings

with the public.

(k) The Members agree to take advantage of opportunities to explain the Small Loans business frankly and fearlessly to the general public, businessmen, public officials, the press, legislators and others who create public opinion.

Appendix B is a list of the members of our Association and the number of branch offices across the country as of June, 1963.

Appendix D is a breakdown of the dollar charges on different size loans paid according to contract,and this is based on 12 months, at lawful maximum rates of charge under 44 small loan laws and arranged by the loan size ceiling which very quickly demonstrates the fact that under the Small Loans Act, Canadians do enjoy the lowest rate in North America, where there is a legislated small loans rate and, in fact, in the world where there is any legislation governing small loans.

Appendix F is a digest of the Small Loans Act, and of course C and E are the copies of the report of the Superintendent of Insurance for the last year for which this report is available and a digest or, as it is called, Office Consolidation, of the Small Loans Act.

Mr. Chairman, I thank you and members of the Committee very much for your patience in bearing with me through this rather long brief today.

THE CHAIRMAN: Well, we appreciate very much your appearing before us and the work that you

APPENDIX B

CANADIAN CONSUMER LOAN ASSOCIATION MEMBERS

JUNE, 1963

NAME	No. of BRANCHES
* Associates Finance Company Limited	39
* Astre Finance Company Limited	1
* Atlantic Finance Corporation Limited	35
H. Bell Finance Limited	1
* Beneficial Finance Company of Canada	160
* Bradley Finance Company Limited	3
* Budget Financing Limited	1
* Canadian Acceptance Company	57
Canadian Personal Loan & Finance Inc.	1
* Capital Finance Limited	1
* Citizens Finance Company Limited	22
Clifton Finance Company Limited	1
* Community Finance Corporation	29
* Cosmopolitan Finance Limited	1
* Crescent Finance Corporation Limited	106
Custom Finance Limited	1
* Danforth Finance Company	1
Dollar Finance Corporation Limited	1
* Don Finance Company Limited	1
* Equitable Finance Corporation Limited	6
Excel Finance Corporation Limited	1
* Fairway Finance Corporation Limited	3
* Friendly Finance Corporation Limited	1
General Finance Company Limited	1
* General Finance Corporation Limited	1
Globe Mortgage & Loan Company Limited	1
* Household Finance Corporation of Canada	272
* Independent Finance Corporation Limited	3
* Kent Finance Company Limited	1
* Laurentide Finance Company	79
* Lombank Finance (Eastern) Limited	14
Lucerne Finance Corporation Limited	4
* Marina Finance Company Limited	1
* Merchants Finance Limited	1
* National Plan Corporation Limited	2
* Niagara Finance Company Limited	231
* O'Neill Finance Company Limited	1
* Pacific Finance Credit Limited	53
Peoples Finance Corporation Limited	1
* Popular Finance Corporation Limited	1
* Prudential Family Credit Limited	21
* Public Finance Corporation Limited	2
* Reliance Finance Company Limited	1
* Rideau Finance Corporation Limited	1
* Seaboard Finance Company of Canada Limited	70
* Severn Finance Limited	2
Sterling Finance Corporation Limited	1
* Superior Finance Limited	17
* The Toronto Finance Corporation Limited	1
* Toro Finance Company Limited	1
* Trans Canada Credit Corporation Limited	86
* Union Finance Company Limited	29
* United Dominions Finance Corporation Limited	2
* Victory Finance Corporation Limited	1

* Members operating in Ontario.

APPENDIX D

DOLLAR CHARGES ON DIFFERENT SIZE LOANS REPAID ACCORDING TO CONTRACT (12 MOS.) AT LAWFUL MAXIMUM RATES OF CHARGE UNDER 44 SMALL LOAN LAWS ARRANGED BY LOAN SIZE CEILING

	Rate	Loan Size $100	$300	$500	$1000	$1500
CANADA	2-1-½%(300-1000)	$13.46	$40.44	$60.76	$98.72	$126.60

UNITED STATES

$1500 Loan Ceiling or Over	Rate	$100	$300	$500	$1000	$1500
California	2½-2-5/6%(200-500)	$16.88	$49.32	$77.80	$123.08	$156.24
Colorado	3-1½-1%(300-500)	20.48	61.56	92.08	139.40	177.12
Kansas	3-5/6%(300)	20.48	61.56	87.64	125.36	156.24
Maine	3-2½-1½%(150-300)	20.60	58.44	86.32	141.56	193.44
Massachusetts	2½-2-1 3/4-3/4%(200-600-1000)	16.88	49.32	77.80	142.76	189.00
Missouri	2.218-2/3%(500)	14.96	44.88	74.92	119.24	148.20
Nebraska	2½-2-1½-1%(300-500-1000)	16.88	50.88	81.40	141.08	187.08
Nevada	Add-on: 9-8%(1000) + fee	21.00	57.00	81.00	126.00	166.00
New Hampshire	Add-on: 16-12%(600)	16.00	48.00	80.00	144.00	204.00
Ohio	Add-on: 16-9-7%(500-1000)	16.00	48.00	80.00	125.00	160.00
Oregon	3-2-1%(300-500)	20.60	61.68	95.68	147.68	186.84
South Dakota	3-3/4%(300)	20.84	62.52	88.36	124.16	152.88
Texas	Add-on: 19-16-13-11-9-7%(100-200-300-500-1000)	19.00	48.00	70.00	115.00	150.00

$1000 Loan Ceiling	Rate	$100	$300	$500	$1000
Alaska	4-2½-2%(300-600)	28.28	84.72	129.76	215.48
Arizona	3-2-1%(300-600)	20.48	61.56	95.56	154.16
Connecticut	Add-on: 17-9%(300)	17.00	51.00	69.00	114.00
Idaho	3-2-1%(300-500)	20.48	61.56	95.56	147.68
Indiana	3-2-1½%(150-300)	20.84	56.16	81.52	135.80
Michigan	2½-1¼%(300)	17.24	51.72	77.44	125.60
Montana	Add-on: 20-16-12%(300-500)	20.00	60.00	92.00	152.00
New Mexico	3-2½-1%(150-300)	20.48	58.44	82.84	123.68
North Dakota	2½-2-1 3/4-1½%(250-500-750)	16.88	50.52	79.72	142.16
Washington	3-1½-1%(300-500)	20.48	61.56	92.08	139.40
Wyoming	3½-2½-1%(150-300)	24.20	66.00	91.24	132.44

$800 Loan Ceiling	Rate	$100	$300	$500	$800
Illinois	3-2-1%(150-300)	20.48	55.32	77.08	101.44
Kentucky	Add-on: 20-15-11%(150-600)	20.00	52.44	82.48	119.44
New York	2½-2-3/4%(100-300)	16.88	45.72	64.72	84.40
West Virginia	Add-on: 19-16-12%(200-600)	19.00	54.00	86.00	126.00

$600 Loan Ceiling	Rate	$100	$300	$500	$600
Florida	3-2%(300)	20.84	62.52	97.00	112.20
Minnesota	2 3/4-1½%(300)	18.68	56.28	85.00	97.08
North Carolina	Add-on: 20-18-15-6%(100-200-300)	20.00	53.00	65.00	71.00
Pennsylvania	3-2-1%(150-300)	20.60	55.32	77.08	85.80
Utah	3-1%(300)	20.84	62.52	90.04	99.96
Vermont	2½-2¼-1%(125-300)	17.24	49.56	72.16	81.00
Virginia	2½-1½%(300)	17.24	51.72	79.12	90.96

$500 Loan Ceiling	Rate	$100	$300	$500
Iowa	3-2-1½%(150-300)	20.84	56.16	81.52
New Jersey	2½-½%(300)	17.00	51.00	71.44

$300 Loan Ceiling	Rate	$100	$300
Alabama	3-2%(200)	20.48	58.44
Hawaii	3½-2½%(100)	24.56	62.64
Louisiana	3½-2½%(150)	24.56	66.96
Maryland	3%	20.60	61.68
Rhode Island	3%	20.84	62.52
Wisconsin	2½-2-1(100-200)	17.00	42.84

October 25, 1963

APPENDIX F

DIGEST OF SMALL LOANS ACT

This digest is intended to give the reader a working knowledge of the Act by explaining its composition and by converting the language of its principal provisions into simpler terms. The numbers used in this digest are those of the relative sections of the Act. Where reference is to sections from both Part I and Part II of the Act both section numbers are shown.

PURPOSE

The purpose of the Act is to limit the charges paid by borrowers of small loans and eliminate the practice of many lenders prior to 1940 of making various charges in addition to the stated interest rate.

Title - An Act respecting Small Loans

1. Short Title - Small Loans Act
Enacted - May 2, 1939
Came into force - January 1, 1940
Amended - August 14, 1956
Amendment came into force - January 1, 1957

The Superintendent of Insurance is responsible for the administration of the Act.

The Office Consolidation of the Act, combines the original Act and the amendment passed in 1956. The first portion of the Act is interpretive and defines the following terms:-

2. (a) "Cost" of a loan means the whole of the cost of the loan to the borrower whether it is called interest or anything else.

(c) "Loan" means a loan made by a moneylender or small loans company of not more than $1,500.

(e) "Moneylender" means any person other than a chartered bank or registered pawnbroker who carries on the business of money lending, or advertises himself, or holds himself out in any way, as carrying on that business.

Note: Included are those companies incorporated under provincial legislation such as Niagara Finance and Trans Canada Credit.

(f) "Small Loans Company" means a company incorporated by special Act of Parliament and authorized to lend money on promissory notes or other personal security and on chattel mortgages.

Note: There are five Small Loans Companies in operation at present - Household, Beneficial, Community, Canadian Acceptance and Laurentide.

The remainder of the Act is divided into three parts.

Part I covers only the operation of moneylenders.

Part II covers only the operation of Small Loans Companies.

Part III covers both moneylenders and Small Loans Companies and deals with penalties for contravention of the Act and issuance of regulations under the Act.

As far as practical operations are concerned the effects of Parts I and II are identical. The difference between the two parts is that in Part II the Loan Companies Act is made applicable to Small Loans Companies except for certain provisions which do not relate to their

business. This obviates the necessity for prescribing in the Small Loans Act the method of incorporation, duties and powers of the directors, etc., which are all set out in the Loan Companies Act.

13 (1) Sections 5, 7, 8, 10 and 11 in Part I are made applicable to Small Loans Companies.

Note: These sections refer to licensing, and inspection by the Superintendent of Insurance and other miscellaneous subjects.

PRINCIPAL PROVISIONS

Rate — The cost of any loan shall not exceed:

3 (2) 2% per month on any part of the balance up to $300.
14 (2) 1% per month on any part of the balance over $300 up to $1,000.
½% per month on any part of the balance over $1,000 up to $1,500.

Maturity — If a loan of $500 or less is made for more than 20 months maturity the maximum rate is 1% per month on the unpaid balance.
3 (3) If a loan of between $500 and $1,500 is made for more than 30 months
14 (3) the maximum rate is 1% per month on the unpaid balance.

Repayment — Loans shall be repayable in approximately equal instalments of principal or of principal and cost of loan at intervals of not more than one month.
6 (1)
14 (5)(a)

6 (2) The cost of any loan or any part of it shall not be compounded or
14 (5)(b) deducted in advance.

6 (3) The borrower may repay any loan or any part of it before maturity on
14 (5)(c) any instalment date without notice, bonus or penalty.

Default — If any loan remains unpaid after the due date of the final instalment, as shown in the contract, interest shall be charged at not more than
6 (1) 1% per month on the unpaid balance.
14 (5)(a)

More than one loan — Where a borrower has an unpaid loan balance and the same lender makes a further loan to the borrower or the borrower's husband or wife the cost of the two loans shall not exceed the cost of a single loan for
3 (4) the same total amount.
14 (4)

Example 1: Total amount $1,500 or less

Balance of original loan	$700
New loan	800
Total	$1,500

The cost shall not exceed
2% per month on the first $300 or any part of it
1% per month on the next $700 or any part of it
½% per month on the next $500 or any part of it

Example 2: Total amount over $1,500

Balance of original loan	$800
New loan	900
Total	$1,700

The cost shall not exceed
2% per month on the first $300 or any part of it
1% per month on the next $700 or any part of it
½% per month on the next $700 or any part of it

Licenses		A moneylender, the cost of whole loans does not exceed 1% per month on the unpaid balance is not required to obtain a license.
5	(1)	Any other person making loans of $1,500 or less is required to obtain a license from the Minister of Finance.
5	(2)	The Minister of Finance may issue a license to any person upon being satisfied that the experience, character and general fitness of such person indicate that he will conduct his business with efficiency, honesty and fairness to the borrowers and to the business of money-lending under the Act.
5	(4)	The license expires on March 31 each year but may be renewed from year to year subject to the requirements of experience, character and fitness as set out in the Act.
Inspection		Licensees are required to make annual returns to the Superintendent of Insurance and to make their books available for inspection by him
7		or his representatives.
9		The Superintendent of Insurance may also examine the books of any unlicensed lender in order to ascertain whether the Act is being observed.

have done in preparing this brief. I'm sure it will be very helpful to the Committee.

MR. IRWIN: Mr. Cawker, I have four questions. On page 7, Table 1, in the right hand column you have a heading "Lenders' Gross Revenue per $100 Loaned per Year", $13.46 opposite $300 as the amount of loan. Then in the next paragraph you make a reference to the common misunderstanding. I just wondered why you made this point. I gather that the $13.46 per $100 of loan per year means that you are actually making less than the 24% charge?

MR. CAWKER: Would you like to deal with that, Mr. Oakes?

MR. OAKES: No, Mr. Irwin, the popular misconception that we refer to is that 24% per annum is $24.00 per $100 per annum. I was reading a publication just the other day, from a very large credit union in the United States. In fact it is the Washington Teachers Credit Union, in which they are discussing rates charged by the Credit Union down there. And they talk about the various types of interest, add-on and discount that you may find generally in the consumer finance field or the instalment field and they say, "To clarify the matter we often state $6.50 per year per $100 borrowed, so that the borrower knows exactly what he is paying", that is in the terms of dollars and cents, you see.

MR. IRWIN: But your actual rate of return on the $13.46 per $100 loan would actually be 24%

MR. OAKES: Yes, sir.

MR. IRWIN: You have no objection to the fact that you are required to make the disclosure in a rate percent per annum?

MR. OAKES: We have no objection as shown in our contracts. We have shown this but we do appreciate the difficulty in other types of consumer credit in translating the dollar cost or in having both the percent per annum and the dollar cost included. We find invariably with the public and speaking from practical experience, that the customers want to know how much in dollars. They can become so confused by add-ons, discounts, simple percent per month, percent per annum that in the final analysis they want how many dollars it will cost them for the transaction.

MR. IRWIN: Well, insofar as this seems to be our main pursuit to secure opinions on this problem of stating a cost of a loan in terms of percent per annum, I would have to concede if people were shopping with your company and other lending institutions where those others are quoting (next few words inaudible). But in a case where they are dealing with one of your companies as opposed to another of your companies and both those companies are required to state the percent per annum, do you not think that is meaningful to the shopper for credit?

MR. OAKES: Well, I am in the small loans field, sir. I am much more in favour of a controlled rate be set by a public body rather than to have a multitude of rates at which people may shop with no control on the maximum rate for credit. I think it

is important that the maximum rate tends to become the rate throughout the industry and regardless which licensed company they use the rate is the same.

MR. IRWIN: You are satisfied then that the imposition by law of the requirement that you state the rate as a percent per annum is no hardship?

MR. OAKES: Right, sir.

MR. IRWIN: Do you see any reason why that would not be valid in other situations?

MR. OAKES: Well because there are a multitude of different situations, particularly in the sales finance field, for instance, which again is a very large segment of consumer credit, where you may have varying rates under the terms of the Small Loans Act. We are all using the standard method but in comparison between our particular industry and other industries there is some confusion. But we do appreciate the problems in other industries where you would need a multitude of charts, for instance, depending on the time, the amount and the periods of actual requirements.

MR. IRWIN: Well, the unique feature of your type of game is that the form of contract is standardized and therefore it is possible to standardize the rate of interest, is that right?

MR. OAKES: It is unique within the licensed companies, sir.

MR. CAWKER: I think it would be fair to say, Mr. Irwin, however, that when we are talking about loans lent since 1939, we have had complete disclosure and therefore I think it follows that we are

satisfied with it, we think the public are satisfied with it. I would hesitate to take on the job of even after 20 odd years in this business, of translating possibly a revolving credit situation in a department store, some types of sales finance, into percent per annum. We are simply saying to you that as a result of the years of exposure to what the borrower wants, we are glad to disclose the percent per annum, but we still feel that the most meaningful yardstick to him, most meaningful statement of rate, is in dollars, his dollar cost.

MR. WHITE: While we are on that point, Mr. Chairman, I think the members of the Committee will acknowledge that the dollar cost is apparently more meaningful until such time as shoppers are given the opportunity of knowing the industry and being able to compare. It was suggested by the Canadian Consumers Association that we ought to go beyond that a step and add to the public school system what interest means. I don't think anybody would challenge the fact that the dollar cost is what they want to know now because there is no opportunity for knowing and comparing interest charges. But that doesn't prove anything.

MR. OAKES: I shouldn't make any comment on the public school system, Mr. White, but the more you try to explain to a customer in terms of percent per annum, they say, "Yes, but how much is that in cash?"

MR. IRWIN: I'm aware of that. That's right now because that is the way the system works. That

doesn't prove that's the way the system should work.

MR. MacDONALD: Mr. Chairman, on this same point, may I explore the implication, what I understand to be the representation. You don't object to a disclosure of interest because you are, in fact, now doing it, but you say that it should be applicable to everybody in the field?

MR. CAWKER: I said I believe, Mr. MacDonald, in the -- as far as loans are concerned, whether they be loans in our area, in the regulated area, I think in any loan it is a fairly simple matter to express in percent per annum, as we have done. I am simply saying that I am not sure it's as easy to do this in other types of consumer credit which I really don't feel prepared to comment on.

MR. MacDONALD: What is the implication of your statement then? Because you think it is difficult to express it in some area, therefore it shouldn't be expressed by everybody? That there shouldn't be a law obligating the expression of interest?

MR. CAWKER: No, I'm not. I really wouldn't say that I think there should not be a law, no. I'm simply saying from exposure to the public and finding what people who come into our offices ask us, that they are more able to interpret dollar costs.

MR. IRWIN: Mr. Chairman and Mr. MacDonald, could I interrupt? I was trying to establish the premise myself. If I were to state it this way: If in other situations that are not covered by the Small Loans Act, the type of lending situation could be

standardized some way, then it would be possible to apply the same type of regulations requiring a declaration of the percent rate per annum as in your case. I thought I gathered from your testimony that because your situation was standardized in respect to the type of lending situation, it is no great problem to state the percent per annum, is that right?

MR. CASEKER: Mr. Hendrie, your Company is across Canada, would you care to comment on that?

MR. HENDRIE: Well, I think we have to distinguish first between cash lending, you are loaning cash directly to an individual and other types of credit, consumer credit transactions. If we are dealing only with cash lending and that would take into consideration not only the small loan industry but the consumer cash lending by banks and credit unions and others who are engaged in the field. Now I presume that it would be possible to establish a standard expression of the interest as a percent per annum covering all types of cash lending. But I think we must also understand that we have in the consumer credit field a great many other types of consumer credit. We have, as we heard in this brief, sales finance credit. We have, as we heard in this brief, retail and instalment credit. We have charge accounts and we have oil company accounts and all that sort of thing. If you are trying to think in terms of expressing something that would be clear and you wanted a common denominator for all types of consumer credit, we say that that would have to be

expressed in terms of dollars because it is not possible to make a percentage in percent per annum embracing all types of consumer credit. If the legislation was so enacted that would require that, then I can assure the Committee that the cost of doing business for many types of businesses would be immeasurably increased to the detriment of the individuals who are attempting to use credit. And that cost would be passed on in some other form, either in a higher markup price or in the curtailment of services. We think then that the dollar cost expression is the clearest expression for a comparative shopper as far as individuals are concerned. And what both Mr. Cawker and Mr. Oakes were saying from their personal experience and I can bear it out also, you originally raised the question why do we put emphasis on the fact that there is confusion on 24% per year being equivalent to $24.00 per annum. We did that because this is a widespread misconception which we face almost every day in our ordinary transactions despite the fact that we have disclosed our interest and our costs. And all people want to know is, "Does this cost me $24.00 for $100 or what does it cost me?" And we say, "No, it costs you $13.46 for the $100, if you pay the obligation promptly". Now if you take the same thing and a person went down to Eatons, for example, and they bought $100 worth of furniture and you were trying to express the credit in a percent per annum rate as far as Eatons was concerned, I don't think it would have any meaningful purpose whatsoever, because there would be so many variables in relation to that cost

that it wouldn't assist the individual that is shopping. That is, as I believe from my reading of the subject and the wide discussion that is going on not only in front of this Committee but the Nova Scotia Committee and various committees in the States, committees in Congress, listening to the Douglas Bill, and so on, somebody is -- we are trying to give a standard or a measurer that will become a fixed thing that everybody can use as a gauge. And for some reason the seizing upon the percent per annum rate as the measure of something, like the metric system or something else, is automatically going to insure that the customer will be able to shop for credit. I can assure you it will not work in transactions, in my opinion anyway, in transactions other than cash lending. In cash lending I think it probably will.

MR. IRWIN: Mr. Chairman, the reason I asked the question is that I thought I had it clear in my mind until you brought up your table where you said that the cost of $100 is $13.46 --

MR. OAKES: That's per $100 per loan.

MR. IRWIN: I realize that. That's right, but it's only $50, in fact, you loan -- 54.

MR. OAKES: The customer receives $100 in cash at the time of the transaction is completed, Mr. Irwin. You are speaking of the average balance.

MR. IRWIN: This is where the confusion arises in the mind of the public and in my mind. You tell me it is 24% per annum and this I understand. Then

you tell me it is only $13.46 for the lenders, and actually it is. It's $13.46 to borrow $54. This is why, Mr. Hendrie, in my view, you have got to find or should try to find some other standard of expression. It seems to me that the thing you said in the first place is that you liked the idea of declaring it as a percent per annum, is correct. (Next sentence inaudible)

MR. OAKES: Mr. Irwin, in discussing with a broad spectrum of the public, I find usually this question of percent per annum comes up among the, say, professional people, maybe lawyers and accountants. But what I am trying to say is to give the Committee the benefit of our experience in dealing with the public on a day by day basis, as to what the public wants to know, not so much as to what maybe the University professor wants to know. I could quote examples. Again, from a standpoint of public relations in our own industry, is it fair that the public should feel that it costs $24.00 to do business with us when really, in fact, it costs $13.46? I remember just a few years back a very large, reputable department store was criticized on the basis that for a $20.00 budget account their minimum charge for the charge was $2.00. Now anybody in the credit field knows that you cannot open a budget account, do the investigation, do the work and the collections for $2.00. But when applied to the $20.00, the rate worked out at 54%. What I am asking the Committee, is this fair from the standpoint that the credit grantor, that the public should actually be deceived into thinking that it is paying more than the

various legislative bodies are permitting the public to be charged, 54% ?

MR. WHITE: Well, that's the reason for this Committee. That's why we are exploring this idea of standardizing the definition of interest, developing a fairly simple formula so that these facts can be made public. Now I don't know why you men would take it upon yourselves to defend other types of consumer credit.

MR. CAWKER: We are not defending really, Mr. White.

MR. WHITE: Well you are objecting though, --

MR.CAWKER: No

MR. WHITE: -- disclosure in other fields.

MR.CAWKER: Well it's a question once again, of course, of the definition of complete disclosure. As Mr. Oakes has just pointed out, we have had now, since 1939 and it is now 1963, this number of years in which we have expressed our rate in dollars, the cost in dollars, the cost in percent per month and the cost in percent per annum. And still we find, inevitably, not only from the consumer, but as Mr.Oakes has said, from various other people, from professional people, a complete misconception of the rate that we charge. Now we know this is a job for us to do in our industry, we know that.

MR. WHITE: Let us be clear on one point -- you are not revealing the effective rate of

interest unless it happens that the amount of the loan is $500 or $300, because if you are borrowing -- or perhaps I shouldn't make this as an assertion, but as a question. If one borrows $300 from you he is going to be paying 24%?

MR. CAWKER: That's right.

MR. WHITE: And that will be true of any sum less than $300. If somebody borrows $400 he is paying 2% on the first $300 and 1% on the next $100, so the effective rate of interest -- well, I can't calculate in my head -- it's going to be about 18%, isn't it?

MR. CAWKER: Its going to be higher than that.

MR. WHITE: 19 or 20%.

MR. CAWKER: But see, sir, the thing that makes it so difficult to accurately calculate interest on a percent per annum basis is the variable in the algebraic formula involved in time. And also the variable involved in repayment. Now those things are imponderables in the repayment of the contract.

MR. WHITE: Let's deal only with your field for a few minutes, if I may. We are questioning other types of lenders about the complexities in their fields.

HENDRIE: The only reason we made a reference to other fields is because we are not in agreement that it is possible, in our opinion, to arrive at a formula that would embrace all types of consumer lending. So if we were put in the position of saying,

yes, we agree on disclosure and we didn't qualify it, what we are saying is we agree on disclosure as far as cash lending is concerned and if that's possible then to find a formula. But we don't agree that it is possible to find a formula if you are going to take into consideration every single solitary type of consumer transaction that may take place. We don't think so because there are so many imponderables in there.

MR. WHITE: I don't want to get into a long debate, I mean I know that is not the purpose of this meeting, but you would acknowledge generally that there can be a formula. Given a definition of interest, and the formula for computing the interest, the two would compliment one another, that you could figure out the rate of interest for each transaction, although it might be extremely complicated. Do you acknowledge that?

MR. HENDRIE: Yes, yes.

MR. WHITE: Would you acknowledge further that if certain tolerances were given, plus or minus 1% of something, that it would be much easier to reckon the effective rate?

MR. HENDRIE: No, I wouldn't say that.

MR. WHITE: Let's turn to your field for a munute. You are making loans, 95% of your loans are under $1,000. So there could be no more than 1,000 calculations for every dollar you would lend out, then there is going to be an effective interest rate, given these maximums established, right? A maximum of 1,000 calculations?

MR. HENDRIE: It depends on (rest of sentence inaudible)

MR. WHITE: If a tolerance were given then there would be some number less than that and if the tolerance were broad enough then there might only be ten or twenty or thirty. Do you follow me on that?

MR. HENDRIE: Oh, I understand what you are getting at but I am also opposed to anything that increases the cost of doing business at which we now operate at the lowest gross rate on the continent and where we have to exercise the most rigid economies in order to even the monthly rate possible on our operations. As an operator, which I am, I am dreadfully opposed to anything that will increase the cost of doing our business.

MR. WHITE: I am attempting to show you that this wouldn't cost you any more because, assuming some kind of reasonable tolerance, you could have in your loan schedules, which are displayed in every office, you could simply have the effective rate posted there --

MR. OAKES: Mr. White, if I may comment, sir. This tolerance could give a difference of 2% between one contractual rate and another, if plus or minus one.

MR. IRWIN: (First part of statement inaudible) -- within a range of 2% --

MR. WHITE: Well, the point I wanted to bring forth, Mr. Chairman, is that notwithstanding the comments made by some of these gentlemen and other

witnesses, there are ways to do it and quite easily, without adding to your cost. I don't know if I have persuaded you to that point or not.

MR. HENDRIE: I don't think you have. (Laughter) We keep an open mind, but we should have to take a look at these tolerances.

MR. WHITE: I further suggest, sir, that this would be good for your industry because, assuming all lenders were required to do the same thing, your effective rate, which is controlled, unlike other lending rates, your effective rate would probably be somewhat less than the people you are competing with. I'm a little surprised that you resist on their account.

MR. HENDRIE: I said it was possible on cash lending. I said I didn't think on retail instalment or sales financing transactions and so on, that it is possible to arrive at this same formula with the same tolerances. As an industry we only said that we think that if you are trying to arrive at a measurer which is understandable to the people who actually do the lending of money or the establishing of consumer credit, that you must talk in their terms. If I was talking, as Mr. Oakes said, to you distinguished gentlemen here who know percentages backwards and forwards, we talk, of course, in entirely different language. But I think laws are written for the vast majority of people and they are made simple to make them understandable. That's our submission here.

MR. WHITE: Well, I think it would be useful. But you will acknowledge that it's possible in

your field to do it quite easily, is that right?

MR. HENDRIE: In our field, in cash loans, yes.

MR. IRWIN: One point follows here on Mr. White, on the question of cost. I don't know whether it would cost you a great deal more to do this kind of thing, or any lending situation, whether it would cost a great deal more to make these calculations. But if such can be done, this intrigues me and I would like your comments on it because it is a question that keeps popping up all the time whenever we are dealing with a lending situation that it costs a lot of money to do business. Why should this be raised at all? I costs money to sell a car, it costs money to sell a refrigerator. Obviously it costs money to lend money. Why should this enter into a confused picture in regard to lending money?

MR. HENDRIE: That's very simple to answer, sir. We operate under a ceiling and so irrespective of the fact that our costs of business have risen substantially over the years and are continuing to rise, we come up against a gross rate of return that there is nothing we can do about. In every other type of business does not operate under a ceiling rate, there is an adjustment according to the marketplace, the free enterprise between what competition will stand and what you can charge for your services and you will absorb your costs as you go along. You know that. If you were buying a suit today from your tailor, I wager to say that you would be paying substantially more than you

did ten years ago and it probably woudn't be any better quality. He has adjusted for his costs, taxes and everything else. We are so cost conscious because we know that if our costs go up we are out of business and we have had to -- when I say effect rigid economies -- we have had to learn how to operate in tinier spaces, reduce rents and operate at --

MR. IRWIN: Mr. Hendrie, you are defending yourself valiantly, but I agree with you fully. Where you are operating, particularly under the Small Loans Act, you started under a fixed ceiling and any additional costs, however marginal, would be a serious consideration for you. No, I was not asking you to defend your position, I was simply asking for a comment on why it is, in almost any other lending situation, other than the one you have described today, a great issue is made about the costs of doing business, the cost of lending money. This is one reason why they can't quote a rate of interest because it costs so much to service the accounts. It strikes me that this doesn't enter into the picture at all. A mortgage company, for example, quoting a prime rate of 7½%, doesn't want to explain to the borrower how much it is going to cost them to open their account, keep track of payments. Now granted in a mortgage company, because you relate to the total volume of credit granted, your costs are less per $100 than in the case of the money lending institution or instalment contract situation. But it is still there and it always surprises me why some people have to make a big issue of what it costs to

lend money and others don't. Would you comment on that?

MR. HENDRIE: You mention a mortgage lending company -- I'm thinking particularly now of prime first mortgages -- the cost is not a substantial factor there because you have your money invested over a long period of time. A first mortgage will run ten, fifteen or twenty years, so when you make your investment, just the same as you convert short term obligations into long term debentures, you have arrived at a fixed cost situation for a long period of time. Unfortunately, in the lending business in which we are particularly engaged, you have a consistent and rapid repayment of the obligations with the necessity to reinvest your funds so there is a very rapid turnover. If we stop investing -- when I say investing, making loans -- if we stop making loans tomorrow, we would liquidate the whole organization in about 15 months.

MR. IRWIN: Again, Mr. Hendrie, if I may interpose here, you are defending yourself unnecessarily. All I am trying to get at is the philosophy. When we are talking about mortgages lending at 7½%, there is no mention of the cost. But when we get into a money lending situation like your own or an instalment credit situation, we have this problem of the cost of doing business. Surely, if I am in business selling anything, my price includes my cost of doing business plus some profit to me. So why all this confusion? If the mortgage lending institution can quote their price of the money at 7½% per annum, and out of that they would pay their expenses and get

some profit, then all you need to do is quote 24% per annum for the cost of doing business. In other words your price of lending money is 24% under $300. The price of lending money by some other instalment credit arrangement is so much, 20% and out of that they pay their own costs. But why, when we get into this field, we always are faced with this problem of doing business. Why don't you just set the price and pay your own expenses, and don't bother the customer with your problems?

MR. HENDRIE: We don't bother the customer. We thought we were explaining the thing. We certainly don't say to a customer that the cost of doing business or the cost of opening an account or carrying an account -- we have nothing to do with the customer as far as that -- we were merely explaining to the Committee.

MR. IRWIN: Why is the customer who comes before this Committee always making enquiries of costs that we must be made aware of? They say, "We have to get 12% or we have to get 24% to stay in business". And you get confused between the interest and the cost of servicing these accounts. Why are these two things confused? Why do they have to mention the problem? Why can't they just say, "In order for us to lend money we have to charge 12%"?

MR. CAWKER: Well, I hesitate to speak for the sales finance companies who, I am sure, are quite capable of speaking very adequately for themselves, but I think there is one basic consideration,

Mr. Irwin, and that is (a) we are dealing with a difference in quality of risk. I think I can assume that you are talking about the mortgage company who states its rate at, I think they use the figure 7%, and other types of consumer credit. And I assume you mean by that the sales finance industry, retail revolving credit accounts at retailer level and I think, first of all, there is the type of risk and the ease at which it can be investigated, if it's real estate. And there is also the unit size, which is very, very important. Now then, we get into the sales finance field or possibly the department store budget account, and for instance in the sales finance field, we start out with the fact that the company rarely has the opportunity to find out at first hand the normal credit information that he should have at first hand. He is handed a contract by a dealer, let us say, and these are unusual costs as compared, I think, to the mortgage company who can have a piece of property appraised and draw a credit report on the individual and arrive at a rate and say this is it, as we do. As I think Mr. Hendrie tried to say, we don't make a big story to the customer about why we need to charge these rates. They are there. They are spelled out. And, of course, the customer has the privilege of shopping. I concur in the position that we should not always take a look at a sales finance rate bid expressed as an add-on, or whatever it may be, and convert it to a rate per annum and say this is the interest cost of the transaction because I strongly disagree that it is the

percent per annum cost of the transaction.

MR. IRWIN: This bugs me. I can't find any answer in my own mind as to why it isn't. The cost of lending money is the rate percent per annum no matter how you express it. It's what I get on a loan and if I have higher costs I have to charge higher prices. No explanation is required.

MR. CAWKER: Well, we are a consumer loan industry. The mortgage company is a different identity once again, and the sales finance company or the retail credit plan is something entirely different.

MR. IRWIN: No matter what lending situation one has there is a principal loan and there is a principal to be paid and there is an interest charge also paid.

MR. HENDRIE: That's not exactly true, Mr. Irwin. Prior to 1913, when the first Uniform Small Loan Act was enacted in the United States, there were Usury Acts in force in all 48 States because of course in the United States the interest rates are reserved to the States and not to the Federal Government. And so loans were made at, say, 6% per annum simple interest rate, but they weren't made at that rate at all because they were being made with brokerage fees, bonuses or investigation fees, etc., which, in effect, made the true rates when those factors were taken into consideration, maybe 75 or 100 or better than 20% or some other fancy figure. Now, in one of the -- the things then that the Russell Sage Foundation did in

writing the first Uniform Act,of which the Canadian Act is a copy, was to make sure that no other charges of any description would be permitted so that the rate expressed would be a true rate of so much per annum. Now if we are going to legislate and you want a common denominator expressed as percent per annum in credit transactions, then I think this is where the difficulty would lie, you would have to say you can't mark up your prices, you can't charge for credit investigations, you can't charge for collections, you can't have delinquency fees, you can't put credit insurance on, you can't do anything at all because this is going to change the percent per annum cost of this particular thing. And I don't think anybody can police a thing like that. That's why I say the cost of doing business, of trying to make that workable, I don't think it's workable. It's only workable if you have a situation such as our situation where we have a cash and where the law says you can't make any other charges and so on.

MR. IRWIN: Well, Mr. Chairman, I'll back away from that question. Actually you stated what I was trying to do very well, that, in a sense, if you have a Usury Law which sets a maximum rate, then you are going to encourage the addition of other charges and the issue becomes confused.

On other question. Generally speaking, in cases of one of your companies, what happens if -- well, take an example. Let's say I borrow $100 on a contract repayable in 12 months and I decide to pay it off at the end of the fourth month. What rebate

would I get?

MR. CAWKER: Well, the charge is computed, Mr. Irwin, to the day the loan is retired. In other words, you pay 2% per month on the use of the money until the day the loan is retired. I think we did mention someplace in here that there is no bonus, notice or any other requirement. The rebate is the full pro-rate, if you want to call it a rebate.

MR. IRWIN: In effect, I simply pay for the use of the money that I actually had --

MR. CAWKER: As long as you had it, that's right.

MR. IRWIN: At 2% per month if it is under $300?

MR. CAWKER: That's right, sir.

MR. IRWIN: Thank you very much.

THE CHAIRMAN: Mr. Lawrence?

MR. LAWRENCE: I was curious about the Association? Is it composed of companies exclusively that are licensed to make loans under the Small Loans Act?

MR. CAWKER: That's right.

MR. LAWRENCE: Do the members of your Association then only make loans under the Small Loans Act?

MR. CAWKER: No. Some of the companies are engaged in the sales finance business as well.

MR. LAWRENCE: Some of them or most of them?

MR. CAWKER: I don't think I can say most of them, no.

MR. LAWRENCE: And how about loans over $1,500, does the same thing apply? For most of the members of your Association are there parent companies or subsidiary companies that do this?

MR. CAWKER: Make loans over $1,500? Yes, that's right.

MR. LAWRENCE: Company members of your Association, do they do this too?

MR. CAWKER: Yes, they do.

MR. LAWRENCE: Quite frankly, while I am not adverse to this Committee being used as a sort of sounding board to get across good publicity on behalf of some of your companies, I appreciate the work that has gone into this brief. I was not here to hear most companies in the main that act under the Small Loans Act. In the first place it is outside our jurisdiction in any event, but actually the main abuses that are taking place in the credit field today are over this amount. Your brief relates strictly to the $1,500 limit. I would hope you are going to come back, or your parent companies are going to come back, or your subsidiaries are going to come back and talk about the field in which there are abuses today, mainly over $1,500 and also the acceptance company business.

MR. CAWKER: Well, I apologize. We were asked to appear here as an Association of Canadian consumer loan companies and for that reason we have tried to deal with the history of the business since

the Act was passed. I believe our opposite number in the sales finance are appearing and I think some of the other individual companies are appearing.

MR. LAWRENCE: What's done over $1,500, this is still within the purview of your Association presumably? Is it or not?

MR. CAWKER: Well, except that certainly a good number of our members do make loans in the area over $1,500, yes.

MR. LAWRENCE: In other words your Association deals only with those matters within the Small Loans Act?

MR. CAWKER: Well, that is the purpose of our Association. However, I think as a general practice we are certainly interested in the ethical behaviour of our members in their dealing in the area over $1,500.

MR. LAWRENCE: All right. Well then, everything you have said in regard to ethics and regard to disclosure and the rates and the dollar cost and everything else, does that apply to your members in the field over the $1,500?

MR. CAWKER: Well I would have to say this. I think there is a variation in the rates charged over $1,500. I have noticed recently that some of our members have been most aggressive as a result of some of the previous hearings by way of their advertising programmes and stating aggressively what their rates are, what their policy is. Of course, I think this is probably the best guarantee that unethical

practices will stop that we can see. And I have been most happy to see that a good number of our members have been developing an advertising programme to let people know what they are doing in the field over $1,500.

MR. LAWRENCE: I gather then that the answer to that is no? That your companies don't necessarily follow the Small Loans Act and its requisites over the $1,500 mark?

I wonder if we could -- I mean this information that you have given us -- I don't want to appear rude or ungrateful in any way because I think it is a very fine brief -- but as I say, we are here, I hope, to help to expose some of the abuses in the field today so that rectifying legislation can be forthcoming. Your brief deals only with something that is already regulated and even then it's regulated by another body. I would hope that perhaps we could have you back sometime for a discussion of the field beyond the limits of the Small Loans Act. The Small Loans Act is working wonderfully well. The only criticism we have had is that the limits aren't large enough. We had a very forceful presentation here one day that it should be increased to $2,500. There is no suggestion or no comment from you people at all in your brief about that and nothing about in this amount over $1,500. I just hope you are going to come back.

THE CHAIRMAN: Do you want to ask that question?

MR. LAWRENCE: All right. How do your associations feel about -- I mean, it's rather

frustrating, as far as this Committee is concerned, in any event, -- what would you feel about increasing the limits to $2,500?

MR. CAWKER: Would you like to answer that, Mr. Oakes?

MR. OAKES: We have had quite a bit of discussion on this point in our own Association. In the first place, just what would be the loss of the Small Loans Act? The Small Loans Act and the whole philosophy behind the Act is to protect the necessitous borrower with very little bargaining power, the man -- in the early days of the Act the limit generally, across the United States, was $300. This was to protect the small borrower with little bargaining power. The same philosophy has existed, but with the increase or the inflation in our economy, we find that it is common practice for families to borrow, generally, up to $1,500. I might say that the demand for amounts above $1,500 is nowhere near as great as amounts below this. So in 1956 we ourselves suggested to the federal Parliament that the rate, that the ceiling should be increased and we, after a great deal of deliberation and trying to analyze what is a small loan, came up with the figure of $1,500. Now when you go beyond that, transactions start bordering on the commercial field. There are many small businesses,or ventures where people are, or businessmen use interim financing and borrow $2,000 -- particularly I'm thinking of small storekeepers and various other people that get commercial credit. I don't know how you differentiate between them. It is a

consumtive type loan and a productive type loan -- when it comes to extending the limits of the Small Loans Act. I personally feel that the present limit under the Small Loans Act is adequate in the protection of the small borrower. Now whether we should venture into the field where we interfere with commercial transactions, I don't know. That is something possibly for other public bodies to decide. I feel that competition in the field above $1,500 today is such, where you have a full range of rates. When you say how does the large loan business differ from the small loan business, I would say the members of this Association, from an ethical standpoint and a method of operation, it doesn't differ. But you do get a great variety in rates and this, of course, depends on a businessman's individual decision on an individual transaction. There are some companies that can make commercial loans, many of these loans are in the commercial field, at maybe 9 or 10%. It depends upon all the factors involved, including risk factor. Other situations, where it may be a very fair transaction, are at 18%.

MR. LAWRENCE: I'm not arguing about the rate at all. What I am wondering about is whether or not there is disclosure of interest, or even of costs?

MR. OAKES: Yes, sir. Any company in this Association that does business above $1,500, I can assure you there is full disclosure of costs, --

MR. LAWRENCE: You mean a dollar rate?

MR. OAKES: A dollar rate -- dependent upon the type of method used to compute the charges.

MR. MacDONALD: Wouldn't an increase in the level of the limit of small loans be a futile gesture -- (rest of statement inaudible)

MR. OAKES: Yes, sir, it would. I can tell you right now that there is restricted service in the field between $1,000 and $1,500 and it is not by the choice of the lenders. When you find particularly small companies -- maybe Mr. Jones would like to say something on this as a small Canadian independent. When you find a small Canadian independent company paying as much as 6½ or 7% for their money, it's very little use to tell Mr. Jones, "Well, of course the spread of the rate is more than that". He doesn't want to put, between $1,000 and $1,500, money that he pays 6½ or 7% for, out at 6% simple per annum. That's the crux of the whole problem, sir. However those rates are set by Parliament.

MR. LAWRENCE: Statistics show there is not much action in that range.

MR. OAKES: If you just take that segment of the loan, Mr. Lawrence, you are not making money. This is why there is restricted service in that area. What Mr. MacDonald is saying is, if you extended the Small Loans Act at existing rates you would find even a greater freeze-up in the service. It is this point that the fair rate, or the unfair rate, from the lender's standpoint, which created many of the abuses

which you speak about where you find these unscrupulous second mortgage people's transactions with large discounts and balloon payments; all the types of abuse that we have become so familiar with for the last three or four years.

MR. MacDONALD: Where do most of your companies get their capital?

MR. JONES: There are many,many sources,from sale of preferred and common stock, from the bank itself as a wholesaler. Those would be the principle means.

MR. MacDONALD: Is the major source of it from the bank as a wholesaler?

MR. JONES: I can only speak (next few words inaudible). Basically, in that case it would be from the bank. This, of course, can be changed over a period of years.

MR. MacDONALD: What is the rate you would have to pay the bank?

MR. JONES: That varies with the prime rate anywhere from 5½ to 6%.

MR. CAWKER: And in some cases, Mr. MacDonald, added to that cost is the maintenance of a compensating balance.

MR. OAKES: This doesn't apply so much to the large companies, Mr. MacDonald. Basically they try to maintain their financing on one-third equity, one-third short term and one-third long term. And there is a move over from the short term into preferred stock or debenture as used in attempting to skim out the

company's indebtedness in relationship to its growth.

MR. CAWKER: I think Mr. White raised an eyebrow on compensating balance. It's a practice, I think, that developed across the border and it seems to be creeping into the banking fraternity here. Simply explained, it might be this. One of our companies might have $100,000 line of credit and the requirement would be to maintain a balance of $10,000 in a current account. So, in other words, you pay interest on $100,000 and have the use of $90,000.

MR. WHITE: Is this going on now?

MR. CAWKER: Yes, it is.

MR. WHITE: I understood from a banker we had here a week or two ago that it wasn't in the commercial field, although they are going into it in the small loan field.

MR. HENDRIE: And, Mr. White, what is the true interest rate when the bank makes you keep a compensating balance? (Laughter)

MR. LAWRENCE: Anyway, before we leave the subject of the limits outside the Small Loans Act, I suppose we could go into it here today. I don't suppose we could finish it but I would certainly like to see some of these Tables extended, at least from some of your other companies, who operate outside the Small Loans Act. Most of your members do have these other companies, I gather?

MR. CAWKER: Well, I can think, Mr. Lawrence, of --

MR. LAWRENCE: This is the field

we are interested in, not the Small Loans Act.

MR. CAWKER: You have heard from the Canadian Acceptance Corporation, I think, who, I believe, explained to the Committee their programme in the area over $1,500 in the second mortgage or first mortgage field. They recently had an advertising programme which I think set out very fairly and very clearly and, if I recollect correctly, I think their rates for a second mortgage were quoted in the area of 1% per month or 12% per annum. The largest Canadian Company, Niagara Finance, recently set up a company specifically to deal in the field over $1,500 and more specifically with mortgages and I think they have clearly stated their rate to be in the area of 1 to 1¼% per month.

MR. LAWRENCE: This is with security on land. I mean this is one of the things we don't know, whether your companies do get into this field without land security, we just don't know.

MR. JONES: He is referring to these large loans. I think that this could be done, but as has been said, the rates above $1,500 become competitive and in the case of my own company, this rate is determined in many ways such as the creditworthiness of the man, etc. And this way we come up with different rates, they will vary from a very low 12% to probably 21%.

MR. LAWRENCE: This is why I am directing my enquiry to Mr. Cawker rather than to any one of you as individuals because I can imagine there is

certain competitive information that you would be very loath to let out as far as your own individual company is concerned. But surely your Association might be able to prepare something for us to give some of these tables beyond the $1,500 limit.

MR. HENDRIE: Basically we don't have those figures. That's number one. All we can do is tell you from a fair exposure to the field generally, what the rate appears to be settled at. If I were asked to give an opinion I would say probably anywhere depending on security and, as Mr. Jones has said, risk and so on, anywhere from 1% per month to possibly as high as 1 3/4, if there is these variables of security, credit risk -- it's possibly a commercial transaction and may be very short term -- this, of course, is getting beyond the field that we have tried to deal with here, as you have said, and that is the field of the straight consumer loan, and possibly directed toward the necessitous borrower.

MR. HENDRIE: You were saying, Mr. Lawrence, that this is the field that the Committee is largely interested in. If I could make a submission to the Committee, I think one of the problems involved in the field over $1,500, is not so much the rate that is being charged. The rate will find it's own level.

MR. LAWRENCE: I appreciate that.

MR. HENDRIE: I think the refunding of the charges is something that would be, I believe, within the province of this Committee to recommend for legislation and I would suggest a refunding

of charges under the Rule of 78ths, which is written into the law, I believe, in about 20 or 22 states in the United States. You see, if you have uniform refunding, then you are not going to run into these situations where someone makes a substantial charge for a deal and then somebody decides that they want to pay it off within a relatively short period of time and then at this moment there is no uniformity by legislation in connection with refunds. They can either refund or not or whatever they want to do. If we had uniformity of refunding, then everybody would know exactly what you pay at the end of 30 days or 60 days, you would know precisely what portion of that unearned charge was going to come back. I know our company, as an individual company, has always used the Rule of 78ths for refunding on our loans over $1,500 and it is used in all our operations in the States regardless of whether it's required by law or not. I think that should be extremely clear. All that is is the sum of the digits, you take the months from 1 to 12 and you add them up and it comes to 78 and you do your refunding on the payment at the end of the first month would be 78/100ths of the charge. And so it works on down. But that's a uniformly fair method and avoids the situation such as I read about in the newspaper where somebody, for example, got a very large bonus and he wanted to go and pay it, or they did pay it up, and they were charged $1,000or $1,500 for the deal and that amounted to maybe half the carrying charge simply because the refund wasn't on a uniform basis. And that could be done very easily and would help to

eliminate some of the abuses in the over $1,500 field.

MR. LAWRENCE: I think it would be very worth while. But the point is, you people represent not only the small loans industry, you represent the direct cash loan industry -- I mean they are not the other suggestions that some of the others have made. You are asking for a great big bash on the head with some sort of weapon here if you don't come along and make these suggestions. Your brief was very worth while, but it deals with something that is already very strictly regulated by the government. I have to admit it, I've never even heard of the Rule of 78ths before.

MR. HENDRIE: I'd like to send you a brief on it.

MR. LAWRENCE: I wish you would.

MR. HENDRIE: Another suggestion would be -- and this, as you know, has come before Queen's Park before and I don't know why it hasn't been acted upon -- and that is a central registry for lien securities. You see, people can get hurt today because of no central registry set-up. If someone went to purchase an article, supposing somebody bought an automobile and, this frequently happens, later discovers there is a lien on it they didn't know anything about it simply because it was in another County and who can go and check all the different counties in Ontario. I would think that a central registry with electronic equipment and everything -- and that's very feasible because -- British Columbia has a central registry out

of Victoria now and it works beautifully there and it avoids a lot of hardships for people.

MR. LAWRENCE: How long has it been there?

MR. OAKES: I believe about 12 years. And anybody in the Province of B.C. can tell instantly whether there is a lien or not on the automobile or anything else.

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: Yes, Mr. Chairman, I would like to ask Mr. Hendrie a question. You mentioned a purchase of $20, on which you charge some $2.00, was it, just to handle the account. And then you say as a percentage, if it was figured on a per annum rate, would be 54%, if you figured it percentage-wise.

MR. HENDRIE: It works on a five month contract, sir.

MR. BUKATOR: On a five month contract for $20.00, it would be 54%. Well, what happens when the purchaser, who has now established this book work for you and makes it a loss to you actually, because you said the $2.00 wasn't sufficient to cover it, comes back and purchases another item within two or three weeks.

MR. HENDRIE: Well, sir, that is the only reason we make the transaction in the first place.

MR. BUKATOR: And then it goes on -- I know a case where the thing started off as a

$20.00 purchase and it piled into $200 and $300 and the payment now is $16.00 a month. Why shouldn't that individual know how much they are paying for the items that they are buying? This is a revelation that the public should have. They should know, dollarwise, what they are paying and you can rest assured that they won't buy that many items if they know that they must pay not only 54%, but across the board for many years it might even add up to more than that. This is why the Committee was set up and I can assure you that I will press for disclosure of interest rates on small items purchased by the people who have not a professor for a husband, you see, and they can't calculate this for the housewife who doesn't know how.

MR. HENDRIE: Well, sir, may I give an example. Of course, we do not use that type of credit system within our own group of companies. I use it as an illustration as a further question. Why should the public feel, be made to feel, that they are being exploited, at the rate of 54%? When you take the case of an individual family -- and credit does apply to individual families -- here is a family who initially can only afford to handle a $20.00 item, some very necessary item, and the charge is $2.00. Would it be anybody's wish that these people, because they only require $20.00 should be denied that?

MR. BUKATOR: Oh no, no. I didn't try to make that point. But I think that individuals should know exactly what they are paying for the use of that money for that period of time because in three or

four weeks or a month they may save and pay cash and maybe get 10% knocked off the item. This is the only thing that the people should know.

MR. OAKES: I could tell you, sir, that if they were told that it cost them $2.00 to open a $20.00 budget account, they would weigh it in the terms of $2.00 a month and in the terms of 54% and decide yes $2.00 is worth this accommodation.

MR. BUKATOR: Well, Mr. Chairman, at least they would know what they were doing before they signed on the dotted line.

MR. OAKES: Mr. Bukator, my guess would be that if this particular transaction -- the $2.00 and the $20.00 one -- was publicized as 54% per annum, that you would shortly find the $2.00 charge disappearing but it would be incorporated in the price of the article so that the customer would still be paying it only now it would a cost item instead of an interest item.

MR. BUKATOR: Then it does become competitive among people who sell that particular item.

MR. OAKES: I, as I said, have been in this business a long time and I saw in many states who have restricted laws relating to borrowing, that couldn't prevent any borrowing whatsoever even though people moved, for example, that their charges were high or anything else, that didn't prevent any borrowing of any description because there was a need there.

MR. BUKATOR: That being the case, then they should be told what it is going to cost them because it is not going to prevent them, but at least they

will know, percentagewise, what they are paying for the cost of that money. If it is not going to interfere then why not tell them?

MR. HENDRIE: Well, I think it will be absorbed in costs and it will go under the table.

MR. BUKATOR: It will go on the item itself. If that item costs so much you can still go out and shop for that item and buy it where you can get it for the cheapest amount.

MR. HENDRIE: Maybe so.

MR. CAWKER: Well, for cash or credit. I think this is the essence of it, isn't it?

MR. HENDRIE: Maybe so.

MR. MacDONALD: If he knew he were paying 54% he might go and borrow the $20.00 from the bank and pay only 6%.

MR. BUKATOR: I feel very confident that it is not going to offend anybody. They will, I think, go to where they can borrow this cash money that you speak of, and then buy the item for cash and pay you people this rate of interest that you indicate so clearly in this brief that you submitted, which is excellent.

MR. HENDRIE: It would cost .40¢ to borrow it from our Company.

MR. BUKATOR: There you are, .40¢. Already the party has saved $1.60 on that item. (Laughter) It's as simple as that.

MR. MacDONALD: Mr. Chairman, in the interest of timing, I would like to concentrate on one

area. I can't reconcile some of the figures in your opening paragraph. You say that 99% of the money is written by members of your Association. Now I did a calculation of the list of the members of your Association at the back and there are 54 of them and yet there are 83 companies. You mean to say that roughly 30 companies, who are not members of your Association, are only doing 1% of the business?

MR. CAWKER: I believe that's the calculation, sir, yes.

MR. MacDONALD: Really?

MR. CAWKER: Yes.

MR. JONES: There may be some companies under the Act, sir, that predominantly are not a small loans business, in order to service any business that might come in they do not actively seek business under the Small Loans Act. It may be a convenience to a conditional sales operation, but they are not actively seeking business under the Small Loans Act. They have it there as a convenience to give their retail or acceptance customers that may require that service.

MR. MacDONALD: Would you say this is the main reason why the 30-odd companies are not members of your Association, that they are not primarily interested in this field? It's just sort of an auxiliary service that they use whenever --

MR. JONES: That's right.

MR. MacDONALD: Well, following from that there is one area that I must say is preoccupying me more and more. I was interested in your Table on page

11 (1871) in which you indicate that consumer loan companies are becoming involved solely in retail sales credit. The figures are that you have nothing back in 1949, you have 15 millions in 1957 and 45 millions in 1962. Still a small percentage of your overall loans and on page 8 you have this rather significant sentence: "Sales finance companies which specialize in this service to dealers rarely deal directly with the prospective purchaser at the time of purchase". Now, in the instances where your companies are, in effect, providing the credit for a sales purchase and here, incidentally, if I may interject, here is where I find it very difficult to distinguish between a cash loan and what you describe as sales financing. Because it is all so neatly tied into a bundle. Let me give you a specific case.

MR. LAWRENCE: (Statement inaudible)

MR. MacDONALD: No, no, it can be done right here. If a small loans company is providing money for the completion of a -- for sales credit -- how are you going to distinguish your loan? Let me give you a specific case which I would like to see this Committee pursue. I have here, for example, a contract that was from the Mural Stone Company out in Downsview where they went up in Northern Ontario and the contract was to apply green horizontal sidings on a complete house, four sides, from the foundations to the eaves, the gables to be done in coral and so on and so on. $1,895.00. The man is handed a contract which says $1,895.00 plus carrying charges in 60 monthly payments of $48.50. So his total outlay was going to be in excess

of $2,900.00. This was handled through the Premier Finance Corporation, 500 University Street. Now the thing that puzzles me is, if your companies are getting into this, is what sort of watching Greek do you have over the sales practices which you, in effect, take over. In this specific one I have got here -- I have got a thermofax copy of it right here -- the agent who sold it, his name has been rubbed out. The man who signed it, his name has been rubbed out and his wife's name has been put in and I am told that this was done after the contract was written. This information I get from Bill Grumand, Q.C., who was a former member of this legislature and is familiar with this kind of thing. But yet this is then taken by a finance company and this rather little educated person is told he can get his house redecorated in this fashion for $1,895.00 when in fact he finds that he has got just under $3,000.00. Indeed, the final book that he got from the company wasn't 60 payments of $48.00, but he found when he got it that it was 59 payments of $48.50 with the 60th payment being $75.50 so that it added another $27.00 to the contract. Now I come back to my basic question. Your companies are moving into this. Do you go back and examine the nature of the deal, whether there was misrepresentation in it, whether there was even fraud in the contract, because here names have been rubbed out and things of this nature, before you accept responsibility for this?

MR. CAWKER: Well, yes. I think this is just good business practice, Mr. MacDonald. Frankly,

I have a fair amount of regard for the good business judgment of our members and I can't possibly understand that one of them would take that kind of a contract.

MR. MacDONALD: This is one of your companies?

MR. CAWKER: They are not a member, no. What I'm saying, this is --

MR. MacDONALD: I'm going to go back to that sentence in your brief: "Sales finance companies who specialize in this service to dealers rarely deal directly with the prospective purchaser". So, by your own admission, you don't go back to the purchaser to find out whether he was led up the garden path, high pressured, dealt with in various --

MR. OAKES: I can outline that practice Mr. MacDonald, as far as our own industry is concerned. You notice there, in this case there has been a fraudulent act, I assume by the salesman to make this paper a worthwhile contract to a sales finance company who are prepared to discount it. Now in our own industry and just recently we have had some discussion with Ottawa, with the Department of Insurance, there are many small merchants in communities all across Canada, who do not deal directly with a sales finance company. A person comes in to purchase an article, say, for $50.00. The dealer would then refer him to one of our branches and in every case we reserve the right whether or not we will accept this contract on the basis, again, of the man's character, ability to repay, all these points. And so we are dealing directly with the purchaser. He is

referred to us by the merchant, but we make the decision whether to take it. If it is for the purchase of a piece of equipment or some durable merchandise, it could be placed on a conditional sales contract.

MR. MacDONALD: Well, Mr. Chairman, I'll leave it then if it doesn't relate to these people here. But it seems to me this is an area -- you advised me to take it up with Mr. Sedgwick, and I shall -- this is an area that we have really got to take a look at because I noticed in the latest news stories of this British Bill that is now being introduced, namely, that when a contract is entered into by a door-to-door salesman, usually there are various form of pressure. The British Act is now going to give them four days in which they can back out of it. Apparently the latest news story indicates that they are also giving particular consideration to the business of where the contract is immediately discounted to a finance company.

MR. CAWKER: Well, I would say, Mr. MacDonald, as a matter of business practice, and I'm sure my friends in the sales finance company would not disagree with this, but a door-to-door selling campaign resulting in conditional sales contracts presented to a sales finance company for discount, I can only say that generally speaking the flag is up right there. This is something that requires usually some looking into and as sales finance companies -- and my company is engaged in the sales finance business -- the integrity of the dealer and his salesmen and the type of paper he is submitting, is of paramount importance because if we are

buying contracts where there has been misrepresentation, then all we are doing is running off down the drain all the good public relations we have tried to develop through the years. We are making enemies, not friends.

MR. LAWRENCE: Let's not exclusively pick on salesmen.

MR. CAWKER: No, no. I said any dealer, whether it be a dealer who employs salesmen or whether it be a car dealer or appliance dealer. His integrity, the way he stands behind his product, the way his salesmen sell. They like the conditional sales contract, this is where we say that there is limited contact with the customer. So if we find that some funny things are happening as in the case you have brought up, Mr. MacDonald, names are switched around, the charges are different from what the company understood -- and I think any good, ethical, reputable sales finance company will do a cross-section of direct confirmation with the customer, "Did you get delivery?" "Was it as indicated here -- a 1959 Plymouth, or whatever?" Because otherwise, first thing you know you have got a snowball on your hands and it's then the sales finance company or the lender who pays the piper.

MR. MacDONALD: Well, I'll leave it there, Mr. Chairman, except that I think this is a really important area in the cost of credit because the net effect of this procedure is that the company selling it discounts it, which means that the price as far as the consumer is concerned, is gone up -- I suspect if we were able to get percentage figures -- a pretty shocking

percentage is increased. Like here he gets an $1,895.00 cottage and he is charged $2,900 and some dollars. I have learned,more by accident than by design, in the last week or so of this going on in vacuum deals and many other kinds of selling and, in my view, it's right within the purview of this Committee, because it's a part of consumer credit.

MR. WHITE: That's why I was asking Mr. Cawker if the members of the Association, the corporate members, dealt with other things than the Small Loans Act. I guess I was asking my question in too obtuse a way. I understood you to mean your companies deal almost exclusively with small loans.

MR. CAWKER: As Mr. MacDonald brought up, I think we had a very -- the companies who are members of our Association, and I have to apologize again for the fact that we thought we were asked to come here as an Association of Canadian consumer loan companies -- and within that Association I think our penetration into the sales finance field was one point --

MR. WHITE: 1.1 -- page 11.

MR. CAWKER: 1.1. For that reason, because there is an Association of sales finance companies who, I believe, will appear before you, we did not deal with that area.

MR. WHITE: Well, I notice, Mr. Chairman, the federal Small Loans Act states the cost of any loan shall not exceed, etc. But on the Central contracts, rendered to us, it says the rate will be such and such, bearing out Mr. Oakes contention that a maximum established

by the government becomes the market rate. The maximum becomes the minimum.

MR. OAKES: In this case it does so because the rate is so tight. We mentioned that we do have the lowest cost small loans rate in the world and the maximum --

MR. WHITE: Didn't you infer, though, that the maximum does become the market. I mean if the maximum were three, that would become the market, likely?

MR. OAKES: No, sir, because there are many states in the United States where the fixed rate may be three, but there are many members operating at 2½, 2 3/4. Under the Canadian rate, it is such a tight rate that there is no room for this competitive factor. In effect, as I mentioned to Mr. MacDonald, many of the small operators are disregarding, although they own licences for the convenience of their existing customers, they do not aggressively seek business under the Small Loans Act because of the tight rate.

MR. WHITE: There is no price competition?

MR. OAKES: There is no price competition.

MR. HENDRIE: The rate in Alaska, Mr. White, is 4% per month or 48% on the first 300, or 150, or something, and I don't know of anybody who is operating in Alaska, including ourselves, who charge a 4% rate. In Australian, each one of the Australian states legislate on interest separately, and I don't know of anybody who is charging the maximum rate there. And in

England, where they have no legislation, but they have a permissive rate, which is considered, if you took a case to Court, that 4% per month on the unpaid balance is not inconscionable. Certainly our company is operating at a substantially lower rate than that in England. But that's where you have rates that allow for competition. Where you get down as in the small loans field, as Mr. Oakes said, you have much room to manoeuvre any more.

MR. OAKES: There is no price competition in this field right now because the rate is depressed.

MR. WHITE: Well, would you agree with the economists who universally hold that the disclosure of interest rates would introduce a measure of price competition that doesn't now exist?

MR. OAKES: I didn't know the economists were in universal agreement on that. I didn't think economists agree on anything. (Laughter)

MR. WHITE: Any economist that I have ever read has expressed himself on the subject and is very much in favour of improving the market by the revelation of rates, according to a formula.

MR. OAKES: Well, we have had complete disclosure, as you know, since 1939, but the economic facts of life are there and in spite of the fact that we have had disclosure there really is, as you have just brought up, there is no competition costwise.

MR. WHITE: You are not setting forth the effective rate though.

MR. HENDRIE: What, on our loans? The effective rate is shown on our loans.

MR. WHITE: Well, the effective rate is not shown as a percentage figure. If I borrow $400.00, the effective rate is not shown.

MR. OAKES: Mr. White, may I explain this, sir. On the average chart, for a member of our Association, if you showed an effective rate on, say, every ten dollars of loan, you would have to produce something like 650 charts. The question is would you have 650 different rate statements printed on your chart or would you depend upon the typist typing in effective rates on each loan transaction. I am just speaking about human error there. It would be tremendous as far as documents are concerned. That is the problem, sir. Either to print 650 different types of effective rates for each $10.00 and each maturity, or to have the typist type it in at the time the loan is made.

MR. WHITE: Well,where it says in instalments of $50.00 a month you would put the effective rate of 19%.

MR. OAKES: Well, sir, that would be fine, but you do leave yourself open to a lot of incorrect figures. This is one of the main problems.

MR. HENDRIE: One of the ways to simplify it would be to --

MR. WHITE: Well, I thought your colleague had already conceded it wouldn't be a difficult problem in your industry?

MR. HENDRIE: I conceded only on the

basis that we are doing it as we are. I didn't understand that we were going to have it broken into groups of loans. I merely said that we are already expressing it as an interest rate. I would rather have the federal government raise the rate to 2% on all loans right straight up the line, then we would have --

MR. OAKES: I think from a practical standpoint, Mr. White, that if anybody knows, if the public is educated to any one rate, it is the fact that licensed loans companies charge 24% per annum. There has been so much publicity. I know socially, if I am introduced, some people say, "You're one of the fellows that charge 24% per annum". I think if there is one universal part of public reputation it is the fact that it is very costly to deal with a small loans company.

MR. WHITE: I think everybody would agree with that, the tremendous publicity over the past few years. I don't want to get back into a debate about the simplicity of it.

MR. SANDERCOCK: Most of the things I had on my mind have been pretty well answered. I was just very happy to go over this brief here. I think it all boils down pretty well that the borrower should know exactly what he is paying for the money that he borrows. I think it has been pretty well explained here. I think Mr. Cawker read this brief here very,very well. A number of years ago -- (rest of sentence inaudible).

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: Yes, Mr. Chairman, there

are one or two items I would like to check here, please. On page 28, Mr. Cawker, your concluding thought, in which you say that "the final point we wish to emphasize is that ...... all credit grantors dealing with the public and not already required to disclose their costs should be included". Do you have someone, or some group, specifically in mind who are not already required to disclose their credit costs?

MR. CAWKER: Mr. Reilly, I think possibly we have sort of had our fingers rapped already for springing to the defence of some of the other credit grantors, but I would have to say this, that I feel that many people take it for granted that it is too easy to develop a formula. Now, as I said earlier, I have been in this business for 28 years now and if I were operating a, let us say a revolving budget plan -- and I think that probably serves a purpose in our scheme of things -- I would shudder to be faced with developing a formula which would be all-embracing any more than going any further than we have here in a statement of rate. Today I have heard actually the first criticism of the fact that we have what we thought was complete disclosure. I can subscribe to what Mr. Oakes has said, that there would be an awful lot of paper involved to go any farther than we have.

MR. REILLY: Do you know of any credit grantors that are not disclosing rates now? Or their costs?

MR. CAWKER: Yes, I would have to say I know many.

MR. REILLY: On the following page, in your Appendix A, Mr. Cawker, under (d), you say that, "Every Member shall, if so requested by the borrower"... then they give him a copy of the contract. Now, one of the members of this Committee explained that he had difficulty, or one of his clients or friends or constituents had difficulty, in obtaining a copy of a contract. I wondered why you should say, "if requested by the borrower"? Wouldn't it be just good common sense and plain good business to give him a copy of the transaction?

MR. CAWKER: I think I would have to say that that is the general practice today, Mr. Reilly. I think this is one item, because it has never been a problem in our Association or with our members. It might have, since 1944, been reworded or improved, but it has never been a problem. I think I can safely say it is standard practice in our industry to give the borrower a copy of the pertinent documents.

MR. REILLY: Thank you, Mr. Cawker. Now, you say you have been subject to some criticism. Let me tell you, sir, as a member of the Committee, that I think you have a very complete brief and I think that you have rendered a service to this Committee today. I am not in accordance, personally, with some of the comments that have been made. I don't agree with the member from Niagara Falls from the standpoint of $2.00 or 54%. I think if people know they are going to spend $2.00, they will assess it on the basis of $2.00 or not and under those circumstances either accept the service

or reject the service. This is their privilege. I am sorry that I have to disagree with members for whom I have a great deal of respect, such as Mr. White and Mr. Irwin. I don't think that giving the person a percentage rate is going to give him the information that he requires because, according to your brief here, what he requires in most instances is the dollar value. Now, on one of your pages it was pointed out that we don't all -- I think by the same member from Niagara Falls -- that we all don't have professors for husbands. Now on page 18 it might be of interest to the members of the Committee, Mr. Chairman, those that are listed under this Table for School Teachers, Managers, Officials, Proprietors and those in the Professional group, just exceed 7% of the 100% involved. And I think this is a point that Mr. Irwin and Mr. White and other members of this Committee perhaps should take into consideration. And I understand that this brief represents 65% of the people in the small loans business at the present time. And if this table is correct and if these people are doing 65% of the business, then those who are borrowing on this basis, shown on page 18 on Table 7, School Teachers, Managers, Officials, Proprietors and Professional people, constitute only 7% of the people who are borrowing.

MR. BUKATOR: That's because they know the interest rate.

MR. REILLY: Yes. So under those circumstances let's give some consideration to the 93% who are borrowing and who want to know the dollar rate

rather than the interest rate.

MR. BUKATOR: And who are being swindled because they don't know the rate.

MR. REILLY: They know the dollar rate here very clearly, Mr. Bukator. It says 24% and in addition to that, if they are not satisfied with 24%, it says it's $13.54. They have it both ways right in the contract.

MR. BUKATOR: You are back to the Small Loans Act now. We were talking about the small consumers who don't buy under this Act.

MR. REILLY: You are most vigorous, even when you are wrong.

MR. BUKATOR: Yes. (Laughter)

MR. LETHERBY: I haven't much to contribute, Mr. Chairman. I think it is an excellent brief. I think these gentlemen are to be commended for the time they have taken. It is very comprehensive. I rather lean to the view than Len does here and we have gone over this many times. In all the organizations that we have had come before us, we have got down to this reveal the interest rate, have some common formula whereby you know the interest can be uniformly shown. But not one of them -- and we have had some very smart financial tycoons here -- could come up with any idea or suggestion how this can be done. For instance, one man, probably not too well educated or supposing he is reasonably well educated. He goes to the bank and he borrows a sum of money and he is being charged 6%. He would go to you boys probably for a loan of, what is it,

under $300? And it's 24%. He's confused right off the bat. He figures, "Why in Sam Hill can't we have an interest rate right across the board that's the same"? He doesn't understand it. My own thinking is, and I lean to Len's here, it would be nice to have a uniform formula and interest rate, but what the man is interested in, as you have just been saying, is the dollar cost. He borrows $100 and you say here, "We want five dollars in exchange for the use of that money". That's what he is concerned about. He can't figure out an interest rate because we in this Committee can't figure it out. So I am all for the dollar cost. (Laughter).

One other item I think Mr. Hendrie mentioned, and that is the central registry. Back in 1954, Mr. Hendrie, this Legislature set up a Select Committee on the subject and I remember I was on that Select Committee. Bob McCowrey was the Chairman and the Honourable (   ) was also on that Committee. And we went out to British Columbia and saw their system and we thought it was very good. We made a very detailed and good report, I thought, -- Bill (   ) was on that too. And we submitted it to the Legislature and it got pigeoned or buttonholed or something. I don't know where it is. But we felt it was a very good report. And I agree with you, sir, that it is something very badly needed. That's all I have to say.

THE CHAIRMAN: Any other questions?

MR. REILLY: Not another question, Mr. Chairman, but I do have an observation. On page 19, -- I know it's pretty popular for a politician to refer

to these people who are down and out and how we are trying to protect the small salaried earner, but we see that those who are 65 and over represent only 1.01% on the basis of the age of the borrower and that most people who are borrowing on the small loans basis are between age 20 and 45 and only 1% are 65 and over.

THE CHAIRMAN: Can you give us any idea of what percentage of borrowers are declined a loan?

MR. CAWKER: I think we covered, we made the statement in the brief, Mr. Chairman, that 60% -- well, 40% of the loans are declined. I believe one of our larger companies has a slightly different figure in its own operation, which you will probably hear about, but industry-wide we decline about 40% of the applications.

THE CHAIRMAN: And where you have a repeat customer, how long might it be before he will come back the second time for a loan?

MR. CAWKER: I don't think I could find a yardstick to give you a time, Mr. Chairman.

THE CHAIRMAN: Do you think that consumer credit has reached a dangerous level?

MR. CAWKER: On the basis of our records and what we see in the field, I can't see that consumer credit per capita has reached a dangerous level. I think our own statistics, between our own statistics and those developed by the Department of Insurance over the years, indicate that the consumer himself is a pretty good judge of whether he should borrow or whether he

shouldn't borrow. I know we hear of the occasional unfortunate evidence of bad judgment. I think that is inevitable. But when you consider the amount of consumer credit that is transacted in this country or in the United States or, for that matter, in England, I do still have the greatest of faith in the ability of the Canadian consumer to make a fair projection of his own ability to repay, whether or not he should borrow. And this is rather consistent, although our statistics don't go back that far, during both upswings and downswings, in the economy.

THE CHAIRMAN: Do your member companies ever try to dissuade the potential borrower from making a loan?

MR. CAWKER: Yes, sir, yes, sir.

THE CHAIRMAN: (Inaudible)

MR. CAWKER: Yes, I would say it has been. In my own experience and also in discussions within our Association.

THE CHAIRMAN: And could you tell us something about your write-offs, give us an individual case where you might have decided to write off the debt?

MR. CAWKER: Would you like to deal with that, Mr. Oakes?

MR. OAKES: I can only speak from my own experience as a major company in the industry. We have, this particular company has, hundreds and hundreds of letters on file from welfare agencies where we have discovered a case, possibly an account that is paid right up to date, and you find that there has been some very

tragic family misfortune. We are approached by welfare agencies, particularly the Army Benevolent Fund, we enjoy a very good relationship with the Army Benevolent Fund, where they will come to us and ask us either to write-off an account completely or to reduce payments or make some special arrangements in order that they can balance out the family finances. This isn't unusual, today, where families run into problems, even to the extent where they do not come and ask us to cancel the debt, but where we voluntarily have cancelled debts.

THE CHAIRMAN: That is where someone has intervened on their behalf?

MR. OAKES: Yes, sir. We usually sit down with the welfare worker or Army Benevolent people and try to come up with a solution that will be helpful.

MR. CAWKER: Some years ago I might say, Mr. Chairman, the matter of cooperation with, among others, the Army Benevolent Fund was taken up at an annual meeting of our Association and I think it would be fair to say that cooperation by our membership generally, since that time, has been something we can be proud of.

THE CHAIRMAN: Gentlemen, are there any further questions?

Well then, as we have said before, I think you have done a very excellent job on the preparation of this brief and on your presentation today. As Chairman, I think it is along the lines I expected it to be and, I think, along the lines that I tried to explain, when they left, that this was the sort of brief

that you were requested to prepare. You have delved into it a little more fully than we expected and I am sure we will find it very helpful. You have been, of course, very cooperative and we appreciate it. Thank you.

---MEETING ADJOURNED UNTIL 10:00 A.M., DECEMBER 3, 1963.